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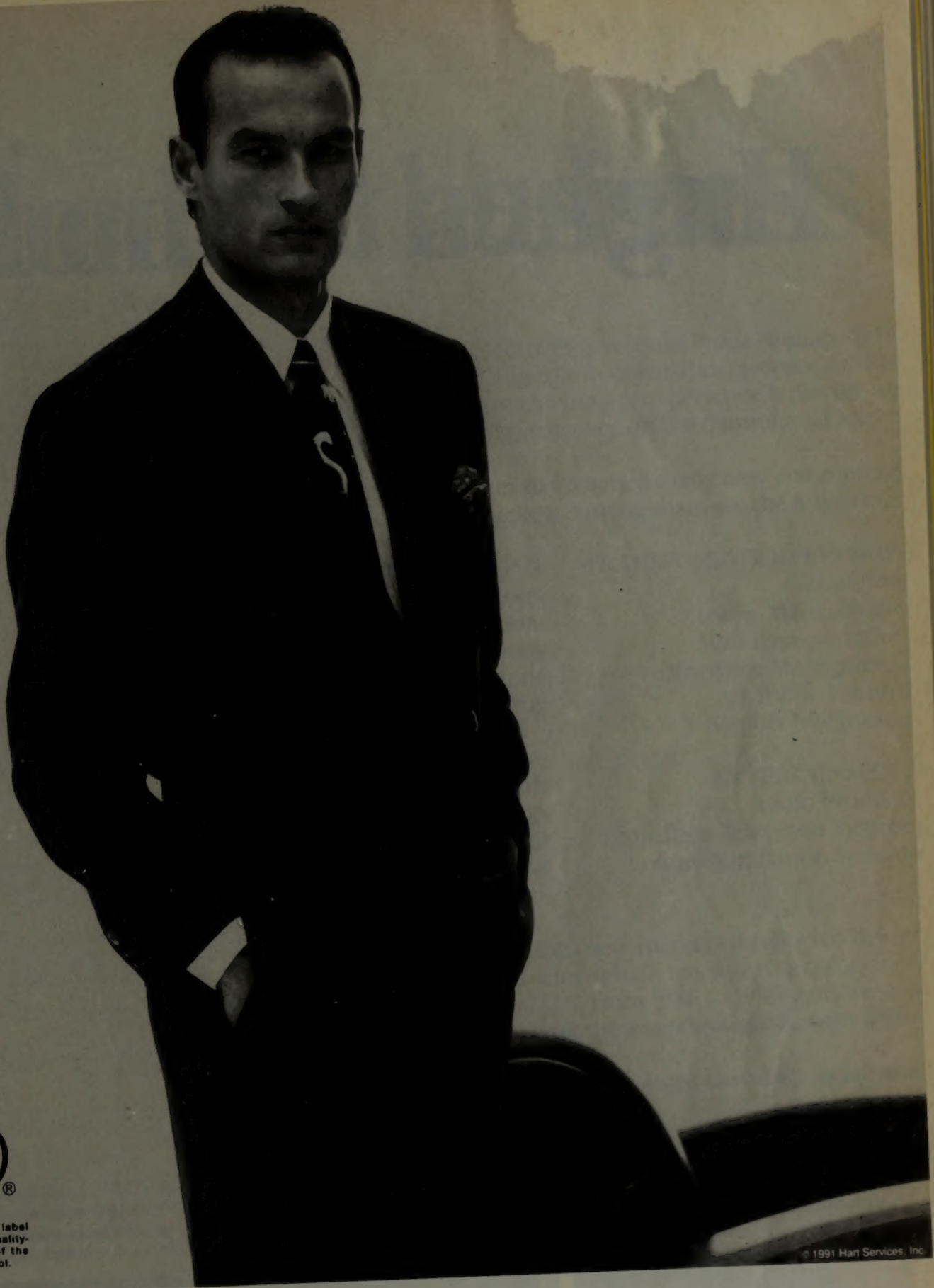

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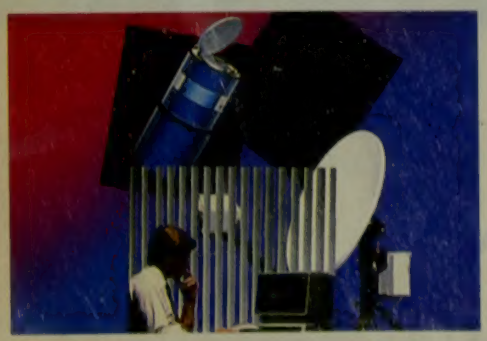

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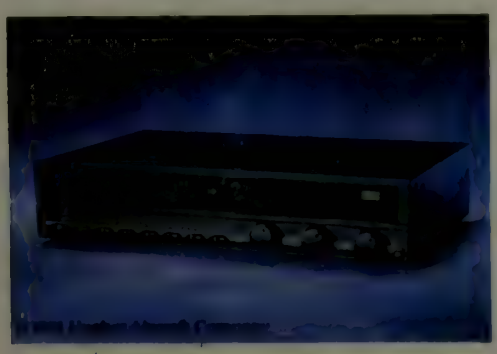

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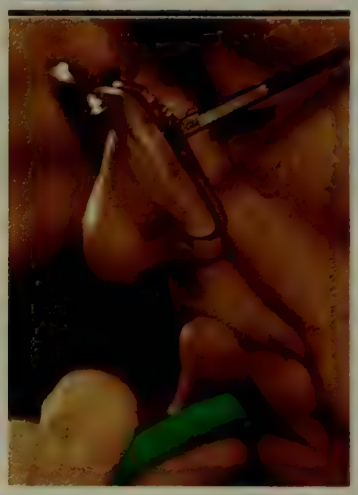

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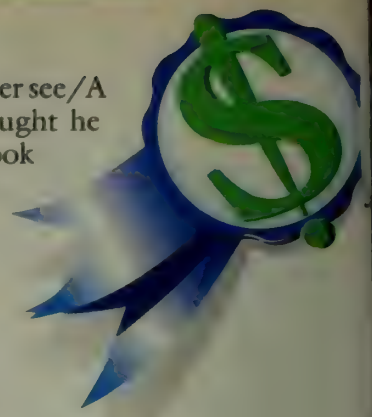
Best buys in mutual funds



OGDEN NASH WROTE: "I think that I shall never see/A billboard lovely as a tree." This editor thought he would never see an investment guidebook worth cutting down trees for. My mind was changed when Jane Bryant Quinn sent me a copy of her just-published *Making the Most of Your Money* (Simon & Schuster, $27.50). In contrast with most such guidebooks, which are superficial and dull, Quinn's manages to be both reader-friendly and sophisticated on everything from buying homes and insurance and securities to dealing with problems of divorce, retirement and education. The book's 934 pages are packed with useful advice and figures.

We at FORBES were therefore pleased that this knowledgeable adviser recommended our annual mutual fund survey in these words: "I'm especially fond of FORBES' [survey], because it gives you a quick fix on how well each fund does in up and down markets."

When we produced our first annual mutual fund survey in 1956, it was unique as an accessible, judgmental guide to mutual funds. Today we have dozens of imitators, yet the FORBES mutual fund survey is still unique. Based on our own proprietary system, it isn't about who's hot and who's not. It's about consistency. Since markets, unfortunately, go down as well as up, we think investors need to know how well funds stay dry in foul weather as well as how fast they move in good weather. This year's survey has a useful new feature. It's called Best Buys and selects the 4 to 8 best funds in each of 10 categories, plus 64 money funds. Survey begins on page 157.

Power grab

MOST OF THE MEDIA have portrayed the dispute over federal wetlands policy as between environmentalists on the one hand and developers and rich farmers on the other. That's worse than an oversimplification. It's untrue. In "The strange case of the glancing geese" Warren Brookes cuts through the rhetoric to show what's really going on. It's a naked grab for power by parts of the federal bureaucracy in conflict with the Fifth Amendment to our Constitution. The dispute has little to do with protection of wildlife and a lot to do with everybody's property rights. Story starts on page 104.

The tribulations of the rich

PAUL TUDOR JONES II, the famed commodities trader, has the uncomfortable distinction of being featured in two articles in this issue. He runs a futures fund with Merrill Lynch that delivers a respectable 12% performance, but half the customers desert because they expected to earn more (page 184). He creates a waterfowl habitat on his Maryland property, and the government keelhauls him for having the goose droppings land in an ecologically incorrect pattern (page 104). As Bill Baldwin, who edited both articles, puts it: "It's almost not worth it to be rich these days."

James W. Michaels
Editor

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PAID CIRCULATION OVER 735,000

Wandering Werner

WHAT EVER happened to Werner Erhard, who became a multimillionaire in the 1970s off the consciousness-raising cult he called "est"? The domineering guru, who began life as Jack Rosenberg of Philadelphia and once sold used cars for a living, is on the run at last.

Six years ago FORBES probed Erhard's finances and found $15 million in fishy loans that were channeled through a bewildering array of overseas foundations, trusts and tax-haven shells *(Nov. 18, 1985)*.

Werner Erhard, est guru
Can the IRS raise his consciousness?

In a ruling two months ago, a Tax Court judge called the loans "sham transactions completely lacking in economic substance." The court determined that Erhard, acting through a series of related entities, had used the loans to effectively purchase various assets from himself. Among the assets: a yacht, artwork and the so-called Body of Knowledge—the holy scriptures of est.

In connection with deductions taken on some of these transactions, the court says Erhard personally owes some $5.5 million in back taxes, interest and penalties from 1981 through 1983. That's on top of $14 million that the est "educational" corporation already owes the IRS. (From 1975 to 1981, est racked up $76 million in gross profit but reported a mere $100,000 in taxable income.)

In April the IRS slapped $6.9 million of liens on Erhard assets in New York and California to prevent him from shifting them out of the reach of the IRS. Erhard challenged the move in U.S. District Court in San Francisco but lost a month ago.

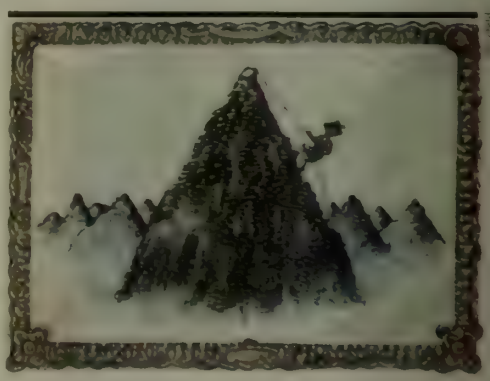
Erhard's latest whereabouts are a mystery. Recently, however, he agreed to be deposed for a civil suit against him—but only in Puerto Vallarta, Mexico. The opposing attorney, John Elstead, says he was told that Erhard couldn't come to the U.S. because of "conflicts with his busy business schedule and travel plans." Keep moving, Werner.

–GRAHAM BUTTON

Eastward whoa

JUST BEFORE the launch of the closed-end Austria Fund in September 1989, FORBES was skeptical about the offering, which seemed timed to take advantage of the giddy headlines about perestroika and newly capitalistic Eastern Europe *(Sept. 4, 1989)*. What would be next—an Albania fund?

Well, no pure Eastern European fund has appeared, since Hungary is so far the only country in the region with a viable stock market. By spring 1990, however, another three closed-end kin were born: New Germany, Emerging Germany and Future Germany. Wall Street's timing was brilliant, as underwriters PaineWebber and Smith Barney offered the funds to investors who were euphoric over the fall of the Berlin Wall.



But politics and money make a risky mix. Take the New Germany fund. Within a week of its initial public offering in January 1990, it jumped from 15 to 24⅝—a 78% premium to net asset value. But nine months later—with investors fretting about the logistics of German reunification—the share price fell by two thirds, to 9⅛—a 22% discount.

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12, it peaked in January 1990 at 24¾, a 77% premium to net asset value. Nine months later it hit a low of 8¾, a 26% discount.

Recently, Emerging Germany was at a 15% discount, New Germany a 13% discount and Austria a 17% discount. With Latin American closed-ends the latest rage, ***mitteleuropa*** funds may be a good contrarian bet. –G.B.

Travails in Patagonia

A PASSION for the outdoors helped Yvon Chouinard build his Patagonia sportswear into the rugged set's garb of choice. He often spends half the year on adventures, personally testing his products *(Apr. 17, 1989)*. But then he climbed too high, losing sight of Patagonia's foundation.

After his Lost Arrow Corp. rang up

Patagonia sportswear's Yvon Chouinard
Refocusing on die-hard adventurers.

$67 million in sales in 1988, Chouinard expanded his product line, adding over 130 new items in the last two years. That hiked sales to $107 million last year. But it hurt Patagonia's cachet among its core customers: serious adventurers. "To keep growing would force us into markets we don't want to sell to," Chouinard concedes. So he dropped over 80 styles and wants to halt domestic growth while pushing harder overseas.

Frustrated by Chouinard's strategic somersault, four top executives recently left. But Chouinard—who, with his wife, owns the whole company—plans to begin selling stock to employees by next year. He's also been taking employees on wilderness treks to hammer home the Patagonia philosophy. By 1995, at 56, he hopes to turn over control and go on permanent vacation. –TODDI GUTNER

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Do as I say, not as I do

GORDON CRAWFORD, of Los Angeles' Capital Group, has been one of the loudest bulls on Time Warner. Accounts managed by his firm own roughly 10% of the company's stock.

Crawford turned his nose up at Paramount Communications' $200-per-share bid for Time in an affidavit for the Delaware Chancery Court during the heated 1989 merger battle. Describing himself as having a "long-term investment horizon," he pronounced Time's bid for Warner a much better deal for shareholders.

But Crawford, it turns out, was selling Time shares just before he gave his statement. In the spring of 1989, as Time shares hit their alltime peak of $182, Crawford reduced his portfolio of 3.9 million shares by nearly 2 million shares, according to documents filed by Capital Group. Crawford, who insists he sold only half that much, bought back in when the share price dropped after the Paramount bid collapsed. Beautiful timing.

More recently, Crawford was one of the few shareholders with anything good to say about the ill-fated rights offering initially proposed by Time Warner. After the offering was announced, Time Warner dropped from around 120 to 82. Did Crawford again dump stock while talking bullishly about the rights offering? Certainly not, he avers. –LISA GUBERNICK

The return of Don Manuel

MANUEL ESPINOSA YGLESIAS had Bancomer snatched away from him in Mexico's 1982 bank nationalization. Now, at age 82, Espinosa wants it back. With Telmex investors Antonio and Moises Cosio Arino, he is said to be bidding on Bancomer in the government's privatization auction.

Other possible bidders include former Bancreser owner Antonio del Valle Ruiz and two competing groups from the wealthy Garza-Sada clan. But Espinosa, known in Mexico simply as "Don Manuel," is the odds-on favorite. Espinosa built Bancomer into Mexico's biggest bank and became the dean of Mexican banking.

When the government took over, Espinosa and other shareholders got bonds worth some $200 million. It will cost Espinosa much more to bag the $18 billion (assets) bank, now Mexico's second largest. Three of the five banks auctioned so far sold for a rich three times book value. Bancomer's book value: $1.7 billion. The winner (aside from the expropriating government of Mexico) will be announced shortly. –CLAIRE POOLE

That empty feeling

YOU'D THINK that real estate mogul Stanley Stahl would worry about the Chemical Bank-Manufacturers Hanover merger. Stahl is Chemical's landlord at its 277 Park Avenue headquarters. Chemical is expected to vacate its 800,000 square feet there by July 1994 and set up shop with Manny Hanny across the street. Real estate sources say Chemical is paying around $32 a foot, so if the space stays vacant for a year, Stahl could lose as much as $26 million in rent.

But it appears that Stahl is in a good position to replace Chemical with a new tenant. The building carries a relatively low mortgage of $300 million, or $165 a foot, and Stahl has a few years before Chemical vacates the premises. That will help him snare a new tenant; possibilities include Smith Barney and Bertelsmann. And shortly before the merger, Stahl reportedly agreed to renew Chemical's lease starting at around $25 a foot—pretty low for prime Park Avenue digs. (Readying the space for new tenants will cost him, though.) Through a spokesman, Stahl professes to be unconcerned about filling 277 Park. –WENDY TANAKA

Patten pulls up stakes

CAREFUL READERS of the *Wall Street Journal* recently saw an ad for a wonderful southern Vermont farm estate – 25 rooms (including 15 bedrooms), 7 baths, 6 fireplaces, a pool, tennis court, trout pond, horse corral, greenhouse and more, all on 9 acres. Originally priced at $495,000, it's yours for just $349,000. Contact Patten Corp.

Patten? The land peddler that retails raw rural tracts to city slickers? The same. Turns out Patten is moving its execs down to Boca Raton, Fla., and so is unloading the palatial farm-

house, which served as company headquarters. Before that it was founder Harry Patten's home. A couple of adjacent houses are on the block for $150,000 apiece. Local real estate agents say those prices are pretty good, especially if you want to turn the digs into bed-and-breakfast inns.

Patten Corp. lost $32 million on revenues of $82 million last year, and has seen its stock dwindle from $18 to pennies before rebounding to a recent $2. Better luck in Florida, fellows.

Cellular sale

THIS SPRING, debt-strapped Metro Mobile CTS announced it would sell its cellular telephone licenses in the Southwest to raise cash. Now George Lindemann, the wily entrepreneur who built Metro into one of the biggest independent cellular outfits, confirms widespread rumors that he's ready to sell the entire company.

Metro Mobile serves some 12 million potential subscribers, or "pops." What price does Lindemann expect? "It should be about $250 [per pop] and maybe a little under," he says.

Analysts say Metro's best markets, Hartford and Stamford, Conn., are worth up to $300 a pop, while cities like El Paso are valued at $140 a pop. On average, they say, Metro will likely fetch $200 to $210 per. At that price, Metro is worth about $25 a share, versus a recent Amex price of 19. Lindemann prefers a stock transac-

tion for tax purposes. Most likely buyers: the regional Bell companies.

Why sell now? Lindemann says he received many inquiries for the whole shebang when the Southwest operations (including licenses in Phoenix and Albuquerque) went on the block. And cellular prices are starting to rise from their recent slump. But many observers agree that Metro, straining under about $780 million of debt, has little choice. That it's something of a distress sale won't help prices.

Don't worry about Lindemann. His 37% stake in Metro is worth some $470 million. –JODY BRENNAN

Bunco bonds

MEXICO'S ECONOMY is hot, and the market for some of its secured debt issues is booming. Naturally, scamsters are moving in.

Seems that officials of Chilpancingo, near Acapulco, decided to issue some debt for a seaside tourist park. The officials, including the mayor, got some cronies to print nearly a billion dollars' worth of bonds in Chicago, it is alleged. The bonds even came with official-looking government seals that made them appear to be negotiable and part of Mexico's foreign debt.

The officials were real, but the bonds weren't, say Mexican authorities. There was no seaside park, either.

FBI agents raided a printing press in Chicago in June. At least eight people have been arrested in the scam. The authorities say the fake paper had already been peddled in Las Vegas and Los Angeles but was quickly discovered, leading to the Chicago bust.

Say this much, though: Mexico's future must be brighter if crooks are trying to trade on it. –JOEL MILLMAN

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Kennedy's right!

SIR: Having spent time in mainland China, Tibet and Burma, I strongly disagree with continuing most-favored-nation status for China *(Fact and Comment, June 24)*. China is practicing genocide in Tibet, supports a brutal police state in Burma and perpetuates many known abuses in its own country. Human rights in the Soviet Union were restored (to the extent they are) through a strong restrictive trade policy toward that country. As a Republican it hurts to admit that Kennedy and Mitchell are right on this issue!
–ROBERT H. DEMING
Golden, Colo.

Sugar bullies

SIR: The Nokyo cooperative bullies the Japanese farmer, irritates U.S. trade officials, and adds to the food cost of a Japanese household ("Bullies on the farm," *July 22*), but the pernicious effect falls short of what the U.S. government subsidy for the sugar lobby does to distort the lives of the sugar-producing nations in our own hemisphere.
–CHARLES G. WESTWATER
South Nyack, N.Y.

David Wade

Tasuku Kanesaka
Japanese farm manager.

Dissenting opinion

SIR: Re "Junk science in the court room" *(July 8)*. FORBES complains of expert witnesses being allowed to give their opinion and, most disturbingly, suggests that no expert should be allowed to give an opinion in court unless his opinion is approved by a federal agency such as the National Institutes of Health or the Centers for Disease Control. That would allow the control of both knowledge and opinion by the government. An odd view indeed for supposed champions of private enterprise and individual initiative.
–ROBERT H. WAGSTAFF
Wagstaff, Pope & Clocksin
Anchorage, Alaska

SIR: I agree that judges have a role in ensuring that the evidence introduced into our courtrooms is valid, applicable, and honestly presented. We offer comprehensive education and training for trial judges in evidentiary matters and all aspects of trial management.

As a society, we somehow expect men and women to become all-knowing once they put on black robes; the real truth is that they can be just as perplexed by these cases as any other nonscientist. Your article points out why American business needs to take an interest in improving the quality and efficiency of our nation's courts, and why judicial education is a wise investment.
–JUDGE V. ROBERT PAYANT
Dean of The National Judicial College
Reno, Nev.

Contingent M.B.A.s?

SIR: Re your article "Contingent income taxation" *(July 22)* on the Campbell ruling [which says tax shelter promoters who participate in their own deals must pay taxes up front on estimated future profits], I suppose that next spring when I hand my students their diplomas I should include a bill from the IRS.
–HERBERT MAYO
Professor of Finance
Trenton State College
Trenton, N.J.

Agri-business lending

SIR: To investigate whether small banks could be both highly profitable ("What am I doing wrong? I'm still making money," *July 8*) and sector specialists over the long run, we looked at agriculturally oriented banks over the decade of the 1980s. Qualification as a member of our "High Performance Bank" set included a return on average assets of no less than 1.1% every year. We found 204 banks which met our criteria in spite of the problems suffered by the agricultural economy during this period. Would that the "too big to fail" monsters were so well managed.
–DOUGLAS G. DUNCAN
GEORGE B. WALLACE
Agricultural economists
U.S. Department of Agriculture
Washington, D.C.

Drastic recommendation

SIR: You asked readers to let the Financial Accounting Standards Board know how foolish its ideas were *(Fact and Comment, June 24)*. I have a drastic recommendation to make: that you or others found a rival standards board and let the virtues of free competition work their magic. Accountants should remain servants of the business world, not masters.
–REUBEN WOLK
Miami Beach, Fla.

We yield

SIR: In the table of "100 U.S.-traded Foreign Stocks" *(July 22)* the sponsored ADRs of Reed International are identified as having a yield of zero. This is completely wrong.
–NIGEL STAPLETON
Finance Director
Reed International
London, England

Due to a computer error we didn't calculate a yield for Reed International. We should have shown a yield of 4.4% (based on the 5/31 price).—ED.

Dressing down

SIR: I take exception to "Dinnerhouse technology" *(July 8)*. The food at the Olive Garden restaurants is memorable. The salad is not "soggy with dressing." I have been to locations throughout the U.S. and have never been disappointed.
–JOANNE BIRD
Indian Head Park, Ill.

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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

TREMENDOUS TREND

IN 1950 LESS THAN 1 American family in 50,000 had an annual income above $100,000 (adjusted for inflation).

Today the ratio is 1 out of 25.

As the economy becomes based more and more on brains and information (thanks to the computer chip), the number of affluent people will increase even faster. A decade or so hence, the proportion of six-figure-income families could be 1 out of 10.

"What happens," asks Charles Murray of the American Enterprise Institute in the *National Review,* "when 10% or 20% of the population has enough income to bypass the social institutions [such as the public schools] it doesn't like in ways that only the top fraction of 1% used to be able to do?" Will it lead to an American caste system that will try to "bypass the problem [of the underclass] by treating the inner city as an urban analogue of the Indian reservation"?

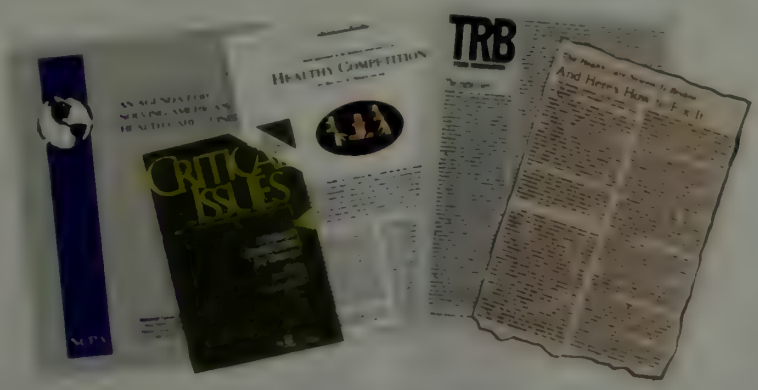
Or will these increasingly well-to-do people adopt more of a liberal California-like attitude toward politics and social issues such as the environment? Or something else?

Whatever the answer, Karl Marx will be proven right about the political power of the rich, but in a way he never would have believed possible—because there will be so many of them. Observes Murray, who is writing a book on this and other social topics: "The Left has been complaining for years that the rich have too much power. They ain't seen nothing yet."

HEALTH CARE HOPE

THE U.S. HAS BEEN heading for a health care disaster, careening toward either a Canadian-like system of socialized medicine or Washington's mandating that all businesses provide health care insurance—which would crush small enterprises. But skyrocketing medical costs are finally highlighting the right answer: unleashing the power of the consumer.

The fundamental flaw of our health care system is the way it is financed. Companies, not individuals, get tax breaks for buying health insurance. Thus, consumers have little or no incentive to shop for medical insurance the way they do for almost everything else they buy, from housing to groceries. Government, corporate and insurance bureaucracies try to micromanage a $600 billion system. The Soviet Union shows where that road leads. Instead, tax credits and incentives should go to the individual rather than the employer.



Suddenly, a growing number of observers are considering free-market alternatives such as those put forward by the Heritage Foundation and the National Center for Policy Analysis. *The Atlantic Monthly* recently ran a first-rate article on the virtues of enabling Americans to shop for their own policies. Liberal commentator Michael Kinsley of the *New Republic* is actively promoting a similar approach. Even the *New York Times* recognizes that a Canadian-like system would destroy innovation in medical care.

Executives should vigorously push these ideas with Congress. We will end up with both healthier workers and a far more affordable health care system.

PAKI BASHING

THAT'S WHAT THEY CALL IT in Britain when white gangs beat up citizens of Indian or Pakistani descent.

Congress appears to be engaging in a similar exercise with Pakistan. Aid has been cut off, military sales have been halted and further reprisals are threatened.

Pakistan's sin is refusing to halt its program of developing nuclear weapons. Pakistan is also hurt by the fallout of the BCCI scandal; the bank's home office is there. With the Russian Army out of Afghanistan, Washington no longer sees Islamabad worth courting as a conduit to supply anti-Soviet guerrillas. Until Pakistan agrees to submit to international inspections, Congress will likely tighten the screws.

We should be more sensitive and sensible. Except for

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Other Comments

Hail to the Conqueror

THE POWER relationship [at the recent summit] was too evident for the Soviet leader to play more than a supporting role. Amid the effusions over reconciliation and cooperation, an American leader was handing down in public the terms on which assistance might be extended to a defeated adversary. For those in search of a striking picture, there was the Soviet intelligentsia, trained to rise to applaud party slogans, on their feet applauding the visiting conqueror for laying down a line that must have sent Lenin spinning around Red Square.
–WALTER GOODMAN, *New York Times*

Tinsel Town Twist

LESS THAN three years ago, Mike Nichols was celebrating a "Working Girl's" dizzy rise up the corporate ladder. Times have changed, and Nichols has now brought forth *Regarding Henry,* designed to show us the error of our greedy, win-at-any-cost Reagan-era ways. This fable for our times is about a rich and powerful New York lawyer, Henry, who comes to realize that his Yuppie lifestyle is a lie, his profession a dishonest scam, his values bankrupt. How does he come to this revelation? By getting shot in the head, losing his memory and re-entering his life as a blank slate.

It's supposed to be great when Henry renounces being an attorney. No more nasty striving for our Henry, who fortunately seems to have a limitless supply of money so that he can renounce the work ethic in high style. If this is Hollywood's idea of a heartwarming, life-affirming spectacle, we should probably all go out and get ourselves shot in the head.
–DAVID ANSEN, *Newsweek*

Will History Repeat Itself?

ALONE AMONG the great revolutions of the world, Communism was unable to achieve power anywhere outside the Soviet Union until after WWII. But during the twenties and thirties not only Communism but Democracy, too, was in retreat. During the 20 years before 1940, liberal parliamentary democracy failed and was abandoned by Italy, Turkey, Portugal, Spain, Bulgaria, Greece, Romania, Yugoslavia, Hungary, Albania, Poland, Estonia, Latvia, Lithuania, Austria, Germany—not to speak of Japan, China and many Central and South American countries.
–*The Duel,* by JOHN LUKACS

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As freedom streaks ahead, embryonic local media will suffer setbacks and require the stimulus of professional example. A most unconsolidated American-supported broadcaster, once-removed from officialdom, is more necessary than ever—beaming into the cacophonous dawn as it once transmitted into the silent night.
–WILLIAM SAFIRE, *New York Times*

Senators are a prolific source of advice, and most of it is bad.
–DEAN ACHESON, Secretary of State, 1949-53

Fairy Tales Can Come True

RECENTLY I attended a conference on folk tales and fairy tales, since these stories often reflect the attitudes of society. You want quiet, passive women? Look at Sleeping Beauty and poor old Snow White. Talkative, clever women must be witches. It takes a handsome prince to wake up Snow White. But while the German Cinderella of the Brothers Grimm is quite passive, the American Cinderella develops a spunkiness of her own. Told she has no clothes to go to the ball, she says, "I'll make them"; told she is dirty, she says, "I'll wash." That is why I have always liked James Thurber's version of Little Red Riding Hood. Told to approach a little closer to the wicked wolf, the wise little girl pulls out an automatic and shoots the wolf dead, and the moral of the story is, *It is not so easy to fool little girls nowadays as it used to be.*
–ADAM SMITH, *The Roaring '80s*

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

ARMS CONTROL OR NATIONAL SECURITY?

AT THE RISK of appearing to be the man who kicks sand into the beach picnic, I would like to suggest that there are several risky, if not dangerous, provisions in the new Strategic Arms Reduction Treaty that I hope the Senate will examine carefully before it votes on ratification.

The treaty is certainly a step in the right direction because it does reduce total warheads. Reductions are vastly preferable to the meaningless "limitations"—much loved by the arms control community—of the old SALT treaties.

But all warheads are not alike, even though this new treaty says each warhead counts as one of the 6,000 weapons allowed each country. In the sublimit details, spelled out in some 700 pages, the Soviets appear to have numerous advantages.

The announced agreement allows the Soviets to keep the 660 warheads they now have on mobile launchers and to add 440 more. We have none and no real prospects of securing congressional approval for any, despite numerous pleas from both the Reagan and Bush Administrations to be allowed to deploy the MX either on fully mobile rail cars or at fixed positions on military posts. The U.S. has been debating all this for well over a decade while the Soviets have deployed four new extremely accurate high-yield intercontinental missile systems. So our "right" under the proposed new treaty to deploy mobile missiles is highly chimerical at best.

De Keerle/Sygma

Euphoria now, but an uncertain future.

Mobile missiles are very difficult to target and destroy, and it will be virtually impossible to verify any agreement that allows the Soviets to field such systems. That is why President Reagan and, until now, President Bush insisted that we would never adopt a START Treaty that permitted deployment of mobile intercontinental ballistic missiles.

The treatment of sea-launched cruise missiles is another worry: We have 367 to the Soviets' 100. The proposed accord would permit each country to have 880. If Congress is as reluctant to fund this increase as it is other weapons systems, we could find ourselves in another minority position because the Soviets still have no trouble funding massive military spending.

Then there is the problem of the "heavy intercontinental ballistic missiles." Only the Soviets have such monster weapons, their SS18s, the largest and most deadly missiles in the world. And, under the new treaty, only the Soviets will be permitted to have them. Much is made of the fact that the Soviets have agreed to reduce their SS18s from 308 to 154. But what is not generally known or acknowledged is that while this treaty was being negotiated, Moscow began deploying two variants of a new heavy missile. Some say these are modifications of the SS18, but in fact the new missiles will be roughly *twice as capable*, because of improvements in accuracy, payload and explosive power, as the SS18s the Soviets are giving up. Half as many heavies is fine, but not if the half left poses twice the threat to the U.S.

All this led Frank Gaffney, director of the Center for Security Policy, to conclude that the new treaty "will simply exacerbate present American vulnerabilities to Soviet nuclear attack."

Add to that the Soviets' less-than-veiled threat to withdraw from the new START Treaty if we deploy *any* strategic defense system that can protect us against their strategic nuclear weapons, and it is evident the Senate will have a major challenge when it ponders ratification. Sadly, this is the same Senate that refuses to fund effective strategic defense but seems willing to support an ineffective ground-based system that is supposed to protect us only against an "accidental launch."

Is there anything we can do? Undoubtedly, the Soviet people want peace as much as we do. So we should do everything we can to support those in the U.S.S.R., such as Moscow's Mayor Gavril Popov, Boris Yeltsin and others who, unlike Mr. Gorbachev, frankly repudiate socialist economics, communism and all that those stand for.

The draft resolutions endorsing private property, some religious freedom and political pluralism recently adopted by the Central Committee are, of course, encouraging. But it should be recognized that none of these goals will be realized under a leader such as Mr. Gorbachev. He still tries to have it both ways by sponsoring resolutions pleasing to the West while harshly repressing dissenters; and he desperately tries to hold on to personal power by seemingly supporting real reform one day but courting the Stalinists the next. ■

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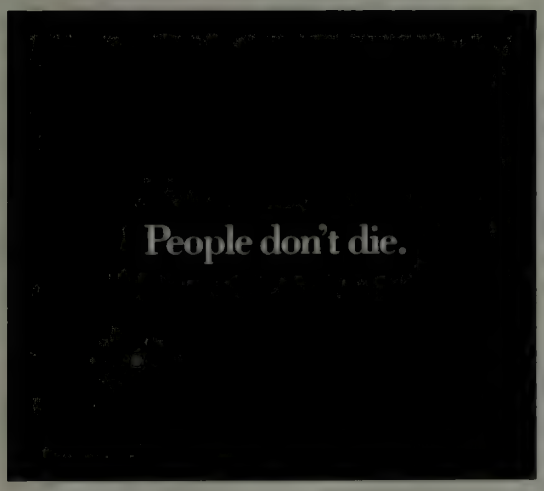

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Poor countries victim of U.S. budget deal

PLANS BY THE RICH countries to write off up to half of their claims against the world's poor countries have hit a rock—the U.S.' budget deal of 1990. The key element of this highly political deal is that no existing nondefense programs would be cut by much regardless of the effect on the deficit, which will now hit an estimated $370 billion or so in fiscal 1992.

The other side of this coin is that the cost of any new program must come out of an existing one. The unintended, and totally unexpected, consequence of this is that the U.S. has found it impossible to work out how to pay for its share of any Third World debt that is written off.

Everyone agrees that substantial amounts of Third World debt should be forgiven. African countries, for example, have been repaying no principal and have been borrowing more to pay their interest costs, with the result that the outstanding debt of the world's poorest countries more than doubled in the 1980s.

U.S. government agencies don't hold all that much foreign sovereign debt, so the cost to the Treasury of a writedown is modest—maybe $2 billion or so. But an equal sum would have to be subtracted from some other international line in the budget, such as State Department salaries and expenses overseas. Liberal Democrats such as Richard A. Gephardt are blocking any compromise on this issue, insisting that President Bush should first approve new money for domestic programs, like extending unemployment benefits from 26 to 46 weeks.

But Poland and Egypt were different

SO HOW COME the U.S. led the way to write off half of Poland's $30 billion and Egypt's $22 billion in debt earlier this year? These writedowns (U.S.' share: $9.3 billion) came about because the President found that there was an "emergency" that allowed him room to maneuver. White House insiders explain that in the case of Egypt, it came down to winning support for Desert Storm; an exception was made for Poland in hopes of garnering votes for incumbents—Republicans or Democrats—in places with large former Polish populations. There's no Ethiopian vote in the U.S., say insiders.

Britain and France had hoped to get agreement for the debt writedown at the recent economic summit. Instead, the issue was referred back to the Paris Club, the informal grouping of 18 countries that hold most of the outstanding Third World debt. This club acts only when there is unanimity, so until the U.S. resolves its domestic budget dilemma, the writedowns are on hold indefinitely.

Fed's squeeze threatens another recession

HAS THE FEDERAL RESERVE been tightening money policy since the end of June? That's what some Fed-watchers say and what the money supply measures seem to show. So-called real M2 (the measure, adjusted for inflation, that includes currency, checking accounts, money market mutual funds and the like) was contracting at the end of July at a 3% annual rate.

Real M2 provides the best indicator of GNP growth. Every recession since the 1960s was preceded by real M2 turning negative. This latest downturn was no exception.

In March real M2 began to run strongly positive, matching the upturn in the overall economy. Since then, however, it has reversed direction. The Fed's latest federal funds rate cut of ¼ point, to 5½% in early August, will of course help. But it looks to be too little too late to prevent economic growth from weakening at some point in the future. The lag is typically 15 to 18 months.

In addition, the German Bundesbank has been threatening to increase interest rates, even though this makes a German recession more likely. A slowdown in Germany will adversely affect U.S. exports.

Why the monetary tightening? Some members of the important Federal Open Market Committee, which sets Fed policy, refuse to believe that inflation in the U.S. is abating. So they push for ever tighter money policy.

Another contractionary factor: The Senate continues to hold up the appointment of economist Lawrence B. Lindsey as a Fed governor. Lindsey, now a White House policy adviser, favors easier money to encourage faster U.S. growth. Many Democratic senators share this view, but cannot forgive Lindsey for pointing out that the U.S. budget deficit grew in the 1980s not because of the Reagan tax cuts, but mostly because of congressional overspending. This senatorial pettiness deprives the Fed—and U.S. taxpayers—of an important swing vote for growth.

THE FORBES INDEX

BY TIMOTHY DODMAN

The Federal Reserve is again lowering the federal funds rate—what banks pay other banks on overnight borrowings—in hopes this will stimulate investment and capital spending. The M2 money supply (currency, checking deposits, savings accounts, small time deposits and money market funds) has grown at the lower end of the Fed's 2.5%-to-6.5% target range. Inflation, often a by-product of an expanding money supply, does not seem to be a problem: The producer price index for finished goods fell 0.2% in July and is only 2.9% above year-ago levels.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales year to date vs 1990[1]	Ward's Automotive	-11.1%
Index of leading indicators June vs May	Dept of Commerce	0.5%
Trade balance 12 months ended May 1991	Dept of Commerce	-$85 bil
All-commodity producer price index July vs June[2]	Dept of Labor	-0.3%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	0.4%
M2 (3-month change)—annualized growth[3]	Federal Reserve	2.8%

[1] U.S.-based manufacturers, excludes imports, as of 7/30/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

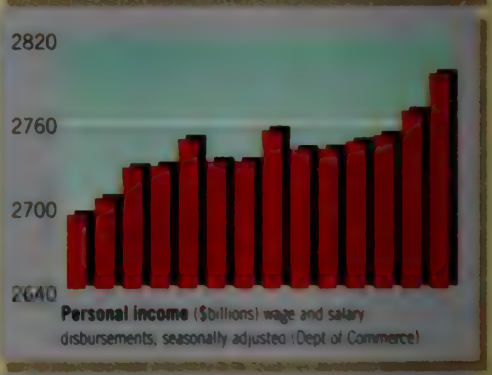
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

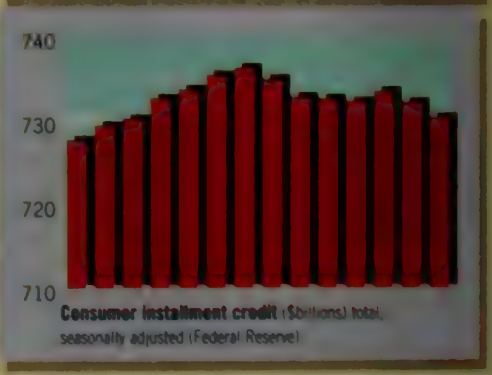
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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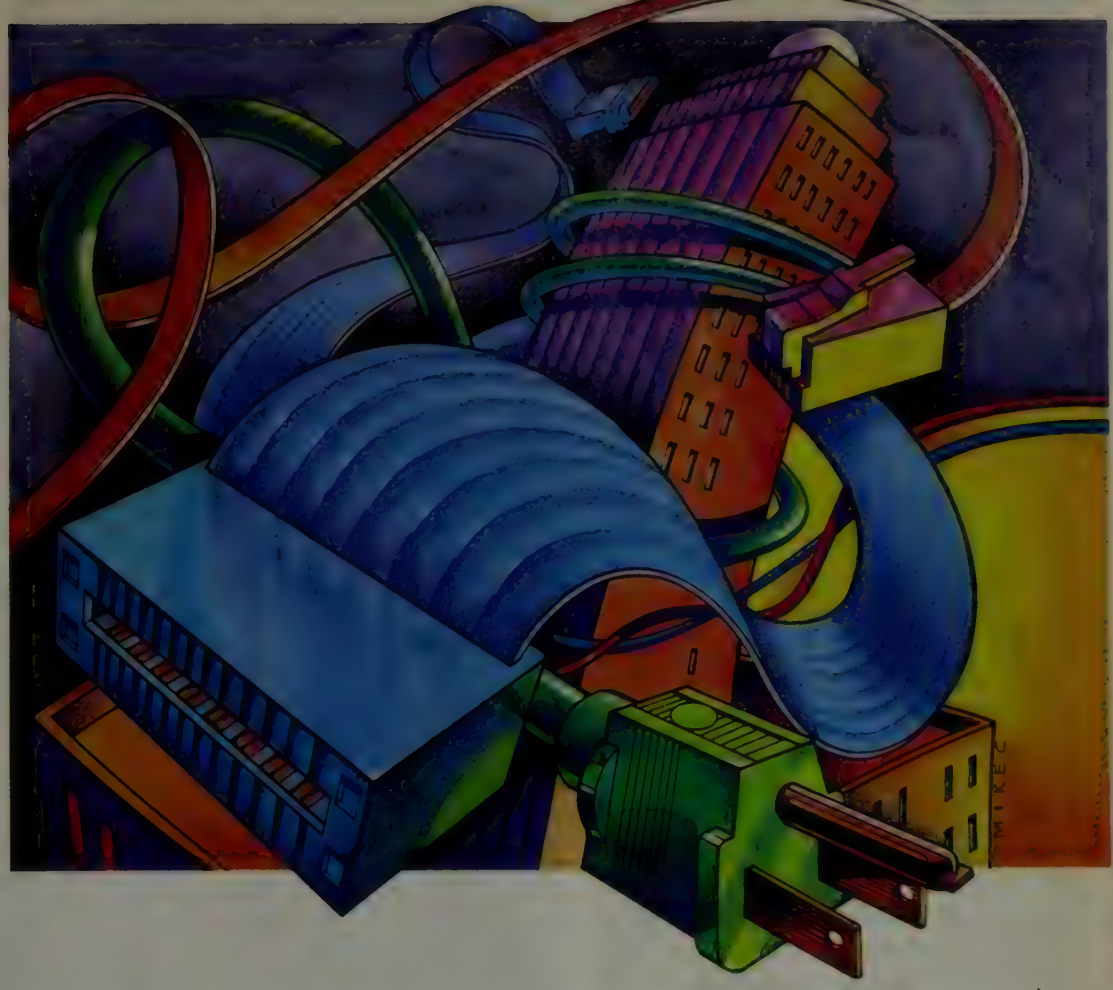

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For a man who loves the excitement of the deal, the acquiring of assets and being his own boss, these are unpleasant times for Rupert Murdoch.

"A big dose of realism"

By Kathryn Harris

AFTER A LIFETIME of acquiring properties and improving their profitability, Rupert Murdoch, at 60, is doing what doesn't come natural to him. From being an eager buyer of media properties in a seller's market, his News Corp. has been forced to become a seller in a buyer's market. His next move is to raise equity. "I don't do it happily," he says. "But the whole point of this exercise [is] you've got to swallow a big dose of realism."

Swallowing it hurts: Unlike Steve Ross, who runs Time Warner without owning much of it, Rupert Murdoch and his family own 43% of News Corp.'s 268 million common shares.

News Corp. has excellent media properties throughout the world. But it paid too much for its later acquisitions, and with borrowed money; Murdoch may have overpaid by as much as $1 billion when he shook hands on his $2.8 billion purchase of *TV Guide* from Walter Annenberg.

Sales of assets brought News Corp. about $741 million in the fiscal year ended June 30 but didn't make a dent in News Corp.'s debt, which rose about $150 million, to $8.3 billion.

A brilliant player on the offense, Murdoch has been forced into playing the unfamiliar defensive role. Last year's worldwide tightening of credit to indebted borrowers caught News Corp. in the midst of installing expensive new printing presses in Britain, Australia and the U.S. As is his way, Murdoch reacted quickly, cutting capital expenditures and reducing the work force by 18%, to 31,186 people.

With these cuts, News Corp. managed to pay over $900 million in interest last year but was unable to reduce debt. Details can't be gleaned until the company files its balance sheet and cash flow statements later

Rupert Murdoch, News Corp. chief executive

Mulling the sale of equity and more assets to reduce the debt.

this month. For now, investors must content themselves with forecasts that 1991 operating earnings matched or improved slightly over 1990's.

By the terms of a hard-won debt agreement reached with 146 lenders in February, Murdoch must repay $2 billion over the next 22 months, with another $6 billion due by February 1994. The deal was hammered out after Murdoch couldn't repay $2.3 billion coming due in fiscal 1991 and, instead, needed an extra $600 million to get through the year. After four months of negotiations, Murdoch got both his reprieve and a bridge loan. The cost was $148 million in bank fees and a tough though delayed repayment schedule.

Like any overextended borrower, Murdoch has three choices: Sell assets, issue public debt or take in partners. He says he's prepared to sell another $800 million in assets if necessary, but he would clearly prefer taking in partners—junior partners if possible. Within two years, he hopes to raise $800 million by selling debt or selling equity interests in individual properties and in News Corp. itself. Murdoch has already spun off 49% of his *South China Morning Post,* and may offer 50% of his commercial printing business in Australia to the public.

Gone entirely are the *Daily Racing Form* and eight U.S. magazines, including *New York, Premiere* and *Seventeen.* Although the sale "hurt," Murdoch says, "one can always start magazines again."

The problem now is that there are few signs of an upturn in the media business, either in the U.S. or abroad. Potential buyers are therefore less willing to pay top dollar for media properties, and investors are less interested in buying media shares.

Murdoch long played by a set of rules that no longer prevail. During the 1980s he was able to borrow ever larger sums because the market value of his media properties was growing even faster than their underlying cash flows. Under Australian accounting rules, News Corp. could regularly write up the value of many assets. This bookkeeping, plainly stated in the annual reports, made lenders feel secure. But the practice is the very opposite of conservative. By News Corp.'s own calculation, stockholders' equity in fiscal 1990 would have been $2.7 billion under U.S. generally accepted accounting principles, less than a third the $8.7 billion the company reported using Australian rules.

Those written-up values may have been valid in the 1980s' superheated media market but may no longer be so today. The company took a $150 million pretax loss on the sale of its magazines in June. Even so, Murdoch says he had to include the *Daily Racing Form* ("a little cash cow") as a sweetener in the deal.

Only last fall an article in the *New York Times* estimated News Corp.'s breakup value as in excess of $20 billion. This summer three analysts valued the company at $12 billion to $13 billion. That $8 billion variation in valuation is extreme, because the

Penny Wolin

20th Century Fox Film Corp.
Not for sale, at any price?

$20 billion figure was probably too high even then. The realistic market value of News Corp.'s assets is probably $4 billion to $5 billion less than it was when the 1990s dawned. There's still plenty of equity in News Corp., but what was a comfortably leveraged company has become a highly leveraged company.

Many of News Corp.'s assets are still readily salable, but selling them at current prices might reduce the company's ability to service debt. Take, for example, News Corp.'s prized business of coupon booklets distributed by newspapers in the U.S., which generates an estimated $97 million in cash flow. Selling this business, say, for less than 9 times cash flow, would cut income more than it would cut interest carrying costs. "If you got 12 times cash flow, it would be just fine [to sell it], but you wouldn't," Murdoch says. "In this market, 10 is all you can really look to, unless it's some special, undeveloped property."

Among Murdoch's readily salable crown jewels are book publisher HarperCollins *(Barbarians at the Gate, Roseanne!)*, which could fetch anywhere from $1 billion to $1.5 billion. Another, of course, is Fox, News Corp.'s holding company for its film studio, TV network and seven TV stations. In theory, News Corp. could retain control of Fox but raise money by selling minority shares. Three analysts put Fox's total market value at between $3.6 billion and $4.6 billion.

Yet Murdoch vows HarperCollins is not for sale. Nor is any part of Fox, he says: "We think that would take a lot of sizzle out of News Corp. I think we'd better keep it as one company."

Murdoch seems to be betting that News Corp. is worth more as a whole than in parts—contrary to prevalent wisdom. He seems to be counting on his ability within the next year or two to make a public offering of News Corp. common shares as a way of cutting debt. He says he would accept dilution of his family's 43% stake in return for a better balance sheet. How much dilution he will have to accept remains the question.

In newspapers, analysts estimate that News Corp.'s operating profits declined as much as 16% in Britain and 25% in Australia for the year ended June 30, 1991. The current fiscal year doesn't look much better for Murdoch—or for anyone else in the business.

At *TV Guide,* Murdoch is fighting both an advertising drop and a circulation slide. The magazine's estimated cash flow is less than $150 million; a wretched return on the $2.8 billion News Corp. paid for it (along with *Seventeen* and the *Daily Racing Form*) in 1988.

British Sky Broadcasting, the 50%-owned pay-television venture in Britain, is exciting for the future but won't reach a cash break-even until the end of 1992, Murdoch says, admitting "it will be a very long time before the shareholders get their money back." News Corp. and its partners (Reed, Granada, Pearson, Chargeurs and others) have sunk nearly $1.5 billion into the venture.

To tide him through, Murdoch says he is banking not on a quick economic recovery but on cost savings. He forecasts cash flow of $1.5 billion in fiscal 1992, up from $1.4 billion in the year just ended. With his first debt repayment of $800 million nearly complete from July and August asset sales, Murdoch says cash flow should be ample to cover capital expenditures and debt repayments through June 1992.

But that's assuming nothing unexpected goes wrong. Murdoch's figures don't allow much for big increases in receivables, inventories and payables. At Fox, for example, the investment in film production rose to $870 million in the first nine months of fiscal 1991, nearly double the previous year's amount.

At County NatWest Securities, analyst John Tinker says, "In fiscal years 1992 and 1993, it looks like [News Corp. executives] will have about $400 million free cash flow before working capital requirements and before they repay $1.2 billion in debt, leaving a shortfall of $800 million."

Meanwhile, BSkyB may require another cash infusion, and News Corp.'s 50%-owned airline leasing business will need $230 million within 18 months, says Baring Securities' analyst Viktor Shvets.

Thus, while there's little doubt that Murdoch will emerge from the ordeal with one of the world's great media empires, this doesn't necessarily make News Corp. stock a great buy right now. The company still faces those hefty debt maturities, and there is the uncertainty about how much equity dilution existing shareholders will face.

Murdoch predicts that the company in two years "will look very [much] like it looks now, with a better share of its markets and half as much debt." That means no substantial retreat from newspapers, book publishing, television and entertainment.

But there must be days when even the ever optimistic Rupert Murdoch thinks back with nostalgia to 1986, when News Corp. had not yet purchased *TV Guide* or Harper & Row; it did own Fox. Debt was a mere $1.8 billion. It was that last layer of leverage, that last reaching for assets, that almost did him in. ■

Can Sonic the Hedgehog zap the Super Mario Brothers? On the answer turns the future of the $4.5 billion U.S. videogame business.

The charge of the hedgehog

By Gale Eisenstodt

"SONIC THE HEDGEHOG" is the story of a blue hedgehog who rescues his friends from an evil scientist. He may also greatly alter the U.S.' $4.5-billion-a-year (retail sales) U.S. videogame industry.

Sonic is the protagonist of a new videogame from $850 million (sales) Sega Enterprises. Upstart Sega is a 40-year-old Japanese maker of arcade games that is doing its best to overthrow the king of videogames, $3.5 billion (sales) Nintendo Co. "Sonic," says Andy Eddy, executive editor at *Videogames & Computer Entertainment* magazine, "may be Sega's answer to Nintendo's Mario Brothers."

Owner of the Super Mario Brothers games and other titles, Nintendo has nearly 90% of the U.S. market for 8-bit games. But as the videogame market shifts to a new generation of products, based on more powerful 16-bit computer chips, Sega's energetic president, Hayao Nakayama, 59, vows to bite off big chunks of that. "I don't like the idea of one company monopolizing an industry," he says.

Replies Nintendo President Hiroshi Yamauchi, 63: "We don't regard [Sega] as a competitor in the U.S."

He should. Already Sega has beaten Nintendo to the U.S. market with a powerful 16-bit game-playing machine. A similar new Nintendo product, priced at $200 (including the latest Super Mario game), will come out this month, just in time to assure a spirited battle for Christmas sales. Nintendo's system offers better sound and a broader color palette than Sega's, but the animation tends to suddenly slow down.

Stealing a march on its bigger competitor, Sega in June cut its new system's price from $190 to $150, and threw in its new Sonic the Hedgehog game. In July, retailers report, Sega sales surged. So far Sega has sold 1.5 million of its new players in the U.S. Nintendo is carried in more stores and has a much stronger brand name. It also has 8-bit machines in over 28 million U.S. households. But its new system is incompatible with the older machines, so parents have to choose between Nintendo and Sega.

Sega President Hayao Nakayama
Challenging Nintendo's near monopoly.

Sega launched its 16-bit player two

years ago and has been using its lead to develop games that take advantage of the machine's more powerful technology. "Sega's software is much farther along the learning curve [than Nintendo's]," reports the videogame buyer at one retail toy chain. Software houses, which create games and then receive licenses from Nintendo and Sega, complain that Nintendo was tardy in releasing product specifications. By Christmas Sega expects to offer some 100 game titles (retailing between $40 and $70 each) for its new machines. Nintendo will offer only about 18 titles.

Coming next from Sega: a compact disc player that attaches to Sega's 16-bit game machine. This will allow devotees to play more complex games with oodles more sound and graphics. The CD player will go on sale in the U.S. next spring, but already 27 software houses are developing games for the new player. Nintendo's competing product won't be on the market until 1993. Sega also recently agreed with powerful JVC to develop a more advanced game system with a built-in compact disc player.

Nintendo's share price has dropped from a split-adjusted high of $188 last August to a recent $88. That values Nintendo at $12.5 billion, 3½ times sales. But Sega's stock has nearly doubled since January. At a recent $95 a share, Sega is valued at $6 billion, 7 times revenues. Yet Sega's net profit margins—around 8%—are currently just over half of Nintendo's.

Sega was started in the 1950s when David Rosen, an American businessman living in Japan, began selling American-style amusement arcade games in Japan. That business is still booming and accounts for 43% of Sega's sales. The company today is under Japanese control, but Rosen, 61 and now living in Los Angeles, remains an influential director and substantial shareholder.

Can the Mario Brothers defend Nintendo's lock on the U.S. market? Bing Gordon, a senior vice president at San Mateo, Calif.-based Electronic Arts, which makes games for both Sega and Nintendo, has his doubts.

"The question now," says Gordon, "is whether Sega's market share for 16-bit players will be 20%—or dramatically higher." ■

With the big New York and California banks merging, the midwestern regionals are playing their own merger game. And it's heating up fast.

Choose your partners!

By Rita Koselka

Marc Burckhardt

FIRST Chemical/Manufacturers Hanover. Now BankAmerica and Security Pacific. Wells Fargo and First Interstate may be next. In the South, NCNB and C&S/Sovran have agreed to merge. In the Midwest, too, the merger pot is bubbling.

Chicago is headquarters for 158 independent banks and savings and loans. That's far too many. Compare that with 9 in Detroit or 28 in Atlanta.

Not surprisingly, the crowded Chicago market isn't very profitable. While Detroit banks currently average a 17.8% return on equity, banks in Chicago average 9.7%.

Imbued with a populist heritage, the Illinois legislature has been effectively anti-big-bank. Until 1982 it restricted the state's banks from owning other banks and limited them to two branches within a 2-mile radius. Recently Illinois legislators opened the banking market—a bit.

As a result, out-of-state banks have rushed in to buy. Detroit's NBD Bancorp

(parent of National Bank of Detroit) has acquired several Chicago banks. So have Manufacturers National, Grand Rapids' Old Kent and Kalamazoo's First of America.

In June, Columbus, Ohio-based Banc One agreed to exchange 0.325 of its shares for each share of First Illinois, a suburban Chicago bank with $1.7 billion in assets. The price when the deal closes should be roughly three times book value—a rich premium for such transactions.

However, Chicago's biggest banks are at more of a disadvantage: $50 billion (assets) First Chicago has been acquiring some small banks but has also been distracted by deteriorating Third World and highly leveraged transaction loans. The $26 billion Continental Bank, under Chairman Thomas Theobald, is focusing not on retail banking but on becoming a wholesale bank.

The attractions for the out-of-towners are obvious. Less oppressed by the recession than other areas of the country, Chicago and its suburbs boast a widely diversified business base, and per capita income in Illinois is 9% higher than the U.S. average. Anticipation of buyouts has already pushed up the price expectations of the better Illinois banks. Such banks as publicly traded First Colonial, Suburban Bancorp and River Forest might be very attractive to banks bent on expansion.

For Michigan banks, the grass is definitely greener in Chicago. Loan growth in Michigan is virtually flat, and commercial middle market lending is dominated by three big banking companies (NBD, Manufacturers National and Old Kent) with a combined market share of almost 75%.

In Chicago, on the other hand, only about 35% of middle market corporate lending is shared by three banks—First Chicago's American National, Bank of Montreal's Harris Bankcorp, and ABN AMRO's LaSalle National Bank.

"Chicago has not had the sophisticated middle market lending other areas have had," says Robert Hughes, head of Manufacturers National's Illinois operation. "We think there is plenty of room for us to do well." A lot of other out-of-town-owned banks seem to think so, too.

Heiress Louise Parsons has a lot of reasons to be grateful to the man who runs Jefferson-Pilot. So why is she trying to fire him?

That's gratitude?

By Lisa Scheer and Edward F. Cone

NOW HERE'S an interesting plot: A man who wrecked a bank tries to unseat a man who has built one of the soundest insurance companies in the country.

In one corner, Roger Soles, 70, the autocratic chairman of Greensboro, N.C.'s Jefferson-Pilot Corp. (assets, $4.5 billion) for a quarter of a century. During the high-flying 1980s he steered clear of junk bonds and junk real estate, investing in blue-chip private placements and equities. While the insurance industry's average capital surplus and reserves has dwindled to 8% of total assets, Jefferson-Pilot's is 24%.

In the other corner, Donald Parsons, age 61, who came to fame 20 years ago by running Detroit's Bank of the Commonwealth into the ground. It had to be bailed out at taxpayer expense. After that, Parsons signed a Securities & Exchange Commission consent decree barring him from the securities business. Since then he has been a lawyer for *Hustler* magazine owner Larry Flynt, and has helped run his wealthy wife's real estate ventures.

These two men have now locked horns. Parsons and his wife, Louise Price Parsons, have decided they don't like the way Roger Soles is running Jefferson-Pilot. Louise, a granddaughter of Julian Price, Jefferson-Pilot's longtime chairman in its early days, is suing to remove Soles from office.

Mrs. Parsons owns 300,000 Jefferson-Pilot shares—about 1% of the common equity—currently worth $14 million and generating around $480,000 a year in dividends. A company owned by Donald Parson's children votes another 1% of the stock.

In late July Louise Parsons filed a lawsuit in federal court accusing Jefferson-Pilot of fraud. Fraud? The Parsonses complain that shareholders

Jefferson-Pilot Chairman Roger Soles **Capable, if not charming.**

Donald and Louise Price Parsons
Some folks are never satisfied.

were duped into granting $1.9 million worth of unrestricted stock to Roger Soles.

Retorts the crusty Soles: "She [Louise Parsons] ought to be on her hands and knees thanking the good Lord that the stock has appreciated the way it has."

He certainly has a point: Since 1981 the stock has quadrupled and paid out over $10 a share in common dividends. The dividend (currently $1.60 on the $46.50-a-share stock) has been increased for 22 consecutive years. Supporting Soles is family patriarch Joseph McKinley Bryan, Louise's uncle by marriage, the 96-year-old philanthropist and Jefferson-Pilot board member.

But the Parsonses complain that Jefferson-Pilot's stock would have done better under a different chairman. They complain that Jefferson-Pilot's five-year return on equity of 10.3% lags the life insurance industry average of 11.1%.

Soles has an answer to that: As an insurance company, Jefferson-Pilot's large common stock portfolio has appreciated greatly, but the appreciation has been credited directly to earned surplus rather than flowing through the income statement; therefore, a lot of earnings never appeared as such.

The Parsonses gripe that Soles' compensation package last year, totaling $3.3 million, was excessive. They complain that he has yet to designate a successor. (Responds Soles: "I like my executives to work their hardest, and I don't want anyone feeling disappointed or like they've got it made.")

Clearly, Soles is no diplomat. A onetime farm boy from eastern North Carolina and survivor of three days behind enemy lines after being shot down by the Japanese in World War II, Soles is blunt to a fault. Greensboro businessman Charles (Buddy) Weill, a longtime friend, says he quit golfing with Soles because he can be so nasty and competitive on the course.

Soles caused disapproval in conservative Greensboro this spring when he spoke rudely to Louise Parsons when she tried to speak at the annual meeting. But, of course, chief executives are supposed to be paid for getting results, not for winning popularity contests.

The Parsonses won the first round in court on July 17, when a state Superior Court judge ruled that the company must make available records involving Soles' use of a corporate plane and his role in the company's charitable giving. Jefferson-Pilot is appealing the decision.

Louise Parsons is now suing to annul the 1990 and 1991 annual meetings, including the election of directors and awards of stock. Louise Parsons insists that Roger Soles ought to retire to make room for young blood. Does she think her lawyer/failed-banker husband should succeed him? Donald Parsons claims he has no interest in the job.

As GE and Westinghouse have diversified into broadcasting and financial services, Percy Barnevik has quietly built Asea Brown Boveri into the leading equipment supplier to the world's electric companies.

The powerhouse

By Paul Klebnikov

LAST YEAR ABB Asea Brown Boveri Ltd., the giant European engineering firm, told Columbus, Ohio's American Electric Power that shipment of an order of large power transformers would be a year late. David Williams, American Electric's head of engineering, stomped and fumed, but there was nothing he could do. ABB was his only supplier.

Where were American Electric Power's other traditional transformer suppliers—GE and Westinghouse—when Williams needed them? They had left the large-transformer business to ABB. Searching for higher profitability, both Westinghouse and GE have been diversifying away from power equipment. GE still has its lucrative gas turbine business and Westinghouse is still well respected in the nuclear business, but many of their other power equipment lines have been sold, cut back or spun off into partnerships with foreign manufacturers, including Hitachi and Mitsubishi Heavy Industries. In 1984 power equipment accounted for 25% of Westinghouse's sales and 22% of GE's. Today it amounts to just 19% and 10%, respectively.

GE categorically denies that it is leaving the power equipment business. But GE's customers aren't so sure. "Many of our old-line suppliers just aren't there anymore," says Thomas Maiman, vice president of engineering at Chicago's Commonwealth Edison. "The relationships from a technical standpoint that we have developed over the years have faded, and in some cases just disappeared." And this at a time when the $100-billion-a-year world power equipment market is growing faster than at any time since the early 1970s.

As GE and Westinghouse have retrenched, Asea Brown Boveri has grown—practically overnight—to lead the market. With $27 billion in 1990 revenues, ABB is not just the single largest supplier to the world's electricity industry. It is also a leading world supplier of robots, process automation systems, locomotives and air pollution control equipment.

A company with no discernible national identity, Zurich-based ABB calls itself a "multidomestic" corporation *(see box, p. 49)*. It is owned 50-50 by two publicly traded companies: Sweden's Asea AB, and Switzerland's BBC Brown Boveri Ltd. In the U.S. over the past two years alone, ABB has bought over $2 billion worth of businesses, including Combustion Engineering and a major subsidiary of Westinghouse. ABB now generates $6 billion of its sales in the U.S.

ABB is the handiwork of an aloof but brilliant Swedish businessman named Percy Barnevik. Barnevik, now 50, grew up in Uddevalla, a small town on Sweden's rocky North Sea coast, where his father ran a small printing business.

"He comes from the west of Sweden, where the work ethic is a kind of religion," says a Swedish steel executive who has known Barnevik since the 1970s. "He is not very social. He has this beard. He's too aggressive and ambitious. Then there is his American training and his time with the steel company in the U.S. He is different from most Swedes."

Kon Nordmann/Contact

Asea Brown Boveri Chief Executive Percy Barnevik

"Barnevik and the Vikings," says an employee, "don't dwell on small talk."

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MANI

After studying economics and computer science in Sweden and then at Stanford, Barnevik in 1969 joined Sweden's Sandvik AB, a maker of specialty steels; he was soon put in charge of Sandvik's U.S. operations, an experience that would later guide him as he built ABB.

"The impulses I got at Stanford, then the five years with Sandvik in America, were extremely educational," says Barnevik. "I felt those huge, unlimited opportunities to penetrate the country, coming out of this chopped-up European continent. The possibility to be able [to build distribution] in such a huge market was extremely stimulating."

Under Barnevik, Sandvik's U.S. sales tripled, to $226 million, from 1975 to 1979. This performance caught the attention of Swedish industrial magnate Marcus Wallenberg, who hired him to run Asea in 1980.

Asea was then a sleepy electrical engineering firm content with the Scandinavian market. Barnevik kicked the company awake. In his first 100 days at Asea, Barnevik told his headquarters staff of 3,500 to either find work in the company's production facilities or leave the company. With the headquarters staff cut to reasonable size, he then launched a series of bold acquisitions to expand Asea's businesses in North America and Asia.

Early on, the Japanese saw Barnevik as a threat and tried to stop him. Japanese robotics companies Fanuc and Matsushita tried to underprice Asea's still fragile robotics division in 1983-84, but Barnevik countered with his own robot sales drive in Japan. He forced his plant managers to cut costs 10% a year and to halve the time it took to bring out new robots. Today Asea's robots are solidly profitable and the company leads the world market.

By the end of 1987 Barnevik had tripled Asea's sales, to $9 billion; increased earnings fivefold; and boosted its market capitalization elevenfold. Next target: the protected power markets of continental Europe.

In 1987 Barnevik proposed a merger to Switzerland's Brown Boveri, a venerable old company with large customer bases in Germany and the U.S. The Swiss agreed and the two companies merged into Swiss-domiciled Asea Brown Boveri.

Again Barnevik quickly moved resources away from central headquarters toward ABB's production facilities. To whip into shape Brown Boveri's German operations—with 34,000 employees and $2 billion in revenues—Barnevik brought in former BMW executive Eberhard von Koerber. The work force was cut by 10% and the headquarters bureaucracy in Mannheim was broken up. The German unions reacted with strikes, barricades and strident criticism in the press. But Barnevik was unswayed. Sales per employee in Germany jumped from $55,000 in 1987 to $94,000 in 1990, and ABB Germany is now catching up to its archrival Siemens on German turf.

Now it was time to tackle the U.S. market. In 1988 Barnevik tried to get access to most of Westinghouse's electrical equipment business. U.S. antitrust authorities blocked that deal, although Barnevik later was allowed to buy Westinghouse's electrical transmission and distribution business for over $800 million.

Undaunted, Barnevik soon came across Combustion Engineering. Once one of the great names of American business, Combustion had been wasted by a misguided diversification campaign. When Barnevik offered Chairman Charles Hugel $1.6 billion, 57% over the current stock price, Hugel immediately accepted.

Hugel, it turned out, had snookered the tough Swede. ABB soon found hundreds of millions of dollars of losses that had not been disclosed during the purchase. Golden parachutes for the old Combustion Engineering gang alone totaled $34 million. The parachutes came in handy. Within months Barnevik had purged Combustion Chief Executive George Kimmel and 8 out of 11 other senior Combustion officers.

Ferguson & Katzman/HMS Group Inc

An ABB transformer plant in St. Louis **ABB has invested $30 million to retrain workers and introduce a near-clean-room environment. The motto: "A sloppy plant floor leads to sloppy thinking."**

Barnevik and Gerhard Schulmeyer, the chief executive of ABB's combined U.S. operations, defend the acquisition. "We wanted an absolute, solid presence in the power market in this country," says Schulmeyer, "and we needed a quantum step."

Barnevik emphasizes a different attraction. "The U.S. is a low-cost country," he says. "It is between the really low-cost countries, like Greece and Portugal, and the high-cost countries, like Germany and Switzerland. One tremendous advantage in America is that on top of the big market, you have low labor costs."

Still, Combustion Engineering has sorely tested Barnevik's strategy of decentralization. ABB has grown faster than the ability of all its far-flung parts to communicate with one another. "We see some confusion in [ABB's] management, and some deterioration in their service," says American Electric's David Williams.

Such problems delight archrival GE. Says GE power systems boss David Genever-Watling: "Some financial analysts have suggested that they [ABB] have tried to acquire too much and manage too many disparate cultures, and that may get them into the same difficulty as Electrolux in the Eighties." Electrolux, he reminds, bought up companies in many different countries and, after a meteoric rise, saw its earnings crash last year.

But make no mistake. No one is counting ABB out. Barnevik and Schulmeyer are methodically rationalizing Combustion Engineering. Its corporate aircraft, artwork and old headquarters building are being sold. The headquarters staff has been cut to 90. About $700 million worth of old Combustion businesses have been sold. New, aggressive technician-managers have been brought in to improve productivity. Overall, after the huge losses last year, ABB's U.S. operations are now profitable.

Barnevik, in short, is getting his new U.S. operations in shape for the competitive battles ahead. The stakes are huge: an estimated $12 billion a year for new power plants and another several billion for supplying transmission and distribution equipment.

One of the fiercest of those battles will be for the gas turbine business, likely to be a $3-billion-a-year market in the U.S. during the 1990s. GE is currently the undisputed world leader in gas turbines, thanks to its large installed base and to development cooperation with GE's jet engine division. Barnevik plans to narrow the gap. In 1989 ABB formed an alliance with the jet engine subsidiary of Rolls-Royce to get its own access to ad-

Multidomesticity

ALTHOUGH HE'S a dedicated free trader, ABB Chief Executive Percy Barnevik knows he's living in an age of "voluntary" import restraints and managed trade. "When I was living in America in the mid-1970s, I was running a steel company," Barnevik recounts. "I was building a tube plant and a welding and wire plant—expanding like hell. And when I was in Washington, talking about steel quotas, there I was: a Swede asking for [steel products] protection in the U.S."

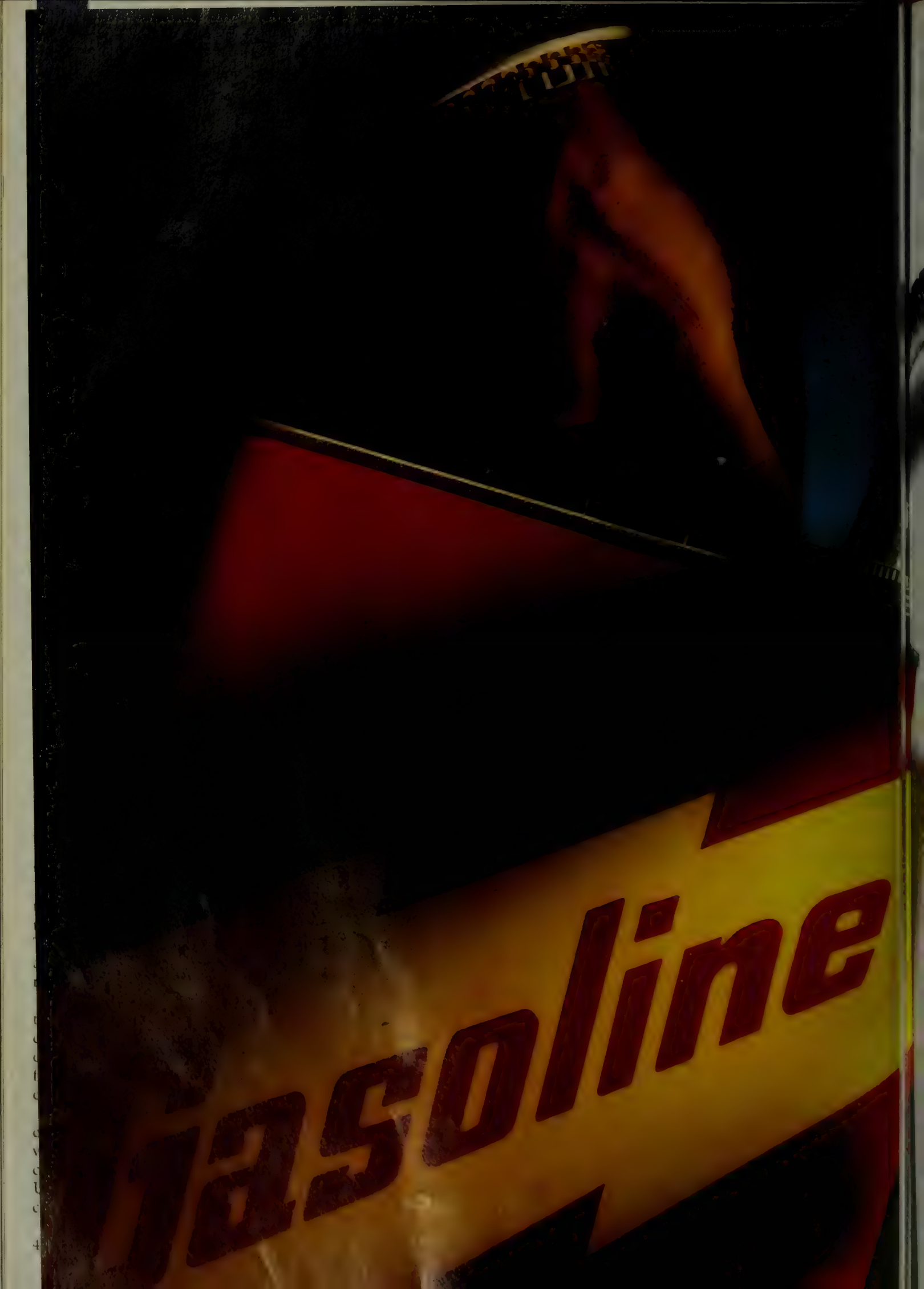
That experience has strongly influenced Barnevik's building of Asea Brown Boveri. In the course of putting ABB together, Barnevik has acquired 70 to 80 companies around the world. Almost half of ABB's sales are in Asia, North America and the Third World. Today ABB consists of 1,300 autonomous operating units with 215,000 employees—coordinated by a headquarters staff of just 150 people in Zurich.

To integrate his different units, Barnevik has developed a highly decentralized corporate structure, which he calls a "multidomestic corporation." The idea is for each national subsidiary of ABB to act as a domestic company. While the corporation as a whole is divided globally along both functional and product lines, it is also divided into more than 100 national companies. The chief executives of these units are responsible for dealing with the local governments, unions and customers.

As far as possible, product manufacturing is done in the country where the customer is—more for political than cost-saving reasons. And having a domestic identity helps win not only domestic orders but export orders as well.

"The nuclear power plants that we are building in Korea are from ABB Combustion Engineering in the U.S.," explains Barnevik. "When I go to Seoul, you know who I visit? Not the Swedish ambassador, not the Swiss ambassador—I go to the U.S. ambassador, because I represent a U.S. company."

Barnevik's point: As the ultimate owner of U.S. manufacturing assets, ABB enjoys the marketing support of the U.S. government, although it is a European company. "That," says Barnevik, "is what 'multidomestic' means." —P.K.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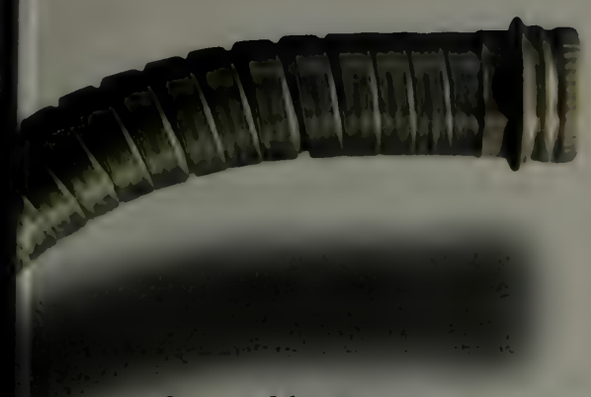

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*Manufacturer's suggested retail price

vanced jet-engine technology.

Will ABB emerge as a powerful competitor to GE in gas turbines? Commonwealth Edison engineering head Thomas Maiman thinks it will. "Over the next five to seven years you're going to see the gas turbine market just take off," says Maiman. "And once GE fills up their shops, where are the utilities going to go? And once ABB's turbines get out into the market and demonstrate a reliability and service record that's equal to or better than GE's, we [utilities] are going to be indifferent to whose turbines we buy." GE is expanding its gas turbine capacity by about 50%, but the company's years of being alone at the top are clearly gone.

Kor Norgman/Contact

ABB U.S. boss Gerhard Schulmeyer
"We needed a quantum step."

In profitability, ABB has a long way to go to catch GE: While GE power systems' operating margins are 13%, ABB manages only 7%. For 1991, on an estimated 10% rise in revenues (to $30 billion), ABB forecasts flat earnings of around $590 million. But that is a near-term earnings problem and Barnevik, still only 50, is in the power business for the long haul.

"Barnevik and the Vikings are extremely results—and performance—oriented," says Shelby Brewer, a former Combustion Engineering executive who has stayed on with ABB. "They're not sloppy in their thinking. They don't dwell on small talk. We all work enormously greater hours than we did before we were acquired. We all have fax machines in our homes."

Facing such determined competition, GE and Westinghouse will have to keep on their respective toes. ■

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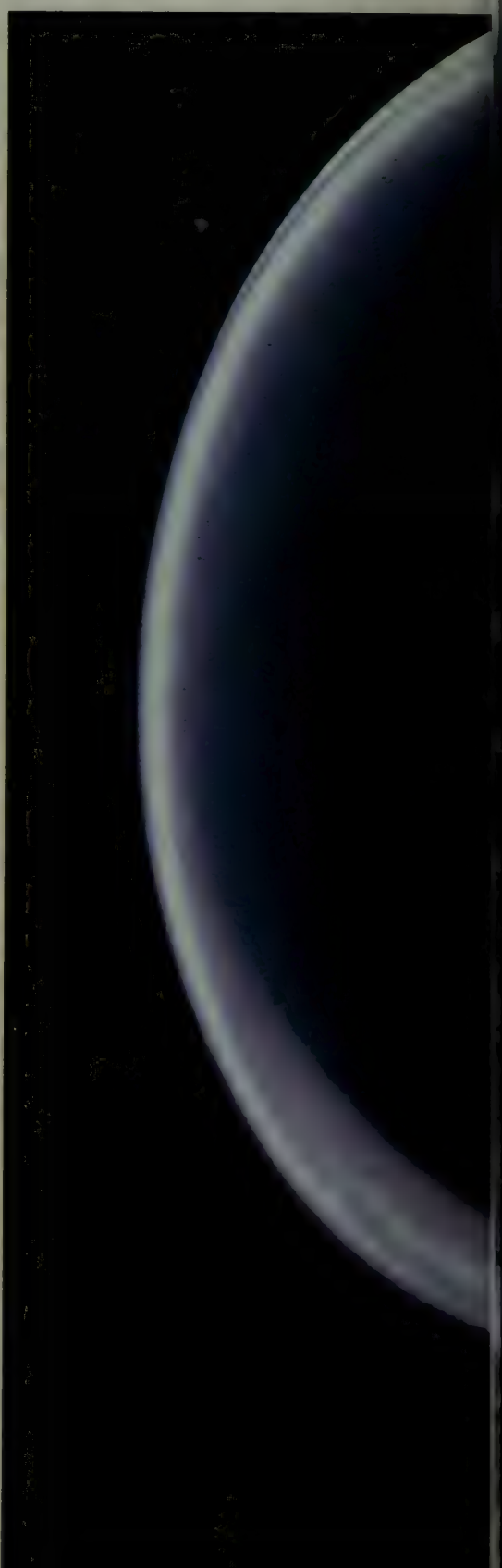

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McCaw Cellular and PacTel Corp. will soon be in the middle of what could be the year's biggest cellular deal. McCaw stands to win more by losing than by winning.

San Francisco standoff

By Fleming Meeks

IN THE EARLY DAYS of cellular—that is to say, the mid-Eighties—upstart McCaw Cellular Communications bought cellular licenses for as little as $4 per potential subscriber, or "pop." Then the market heated up, but Chairman Craig McCaw, no longer an upstart but a pacesetter, kept right on bidding. In March of 1990 he paid $3.4 billion—or around $350 a pop—to gain control of Lin Broadcasting. That brought McCaw's national coverage to 61 million pops—nearly one-quarter of the country.

After that, as if exhausted, his highly leveraged cellular giant (debt of $5.4 billion; equity of $1.8 billion) drifted off the front page. It has focused on cutting its crushing debt through sale of some properties and through debt-for-equity swaps.

But Craig McCaw's profile will soon rise again. Come Sept. 26, McCaw Cellular may find itself in the middle of the year's biggest cellular deal. On that day, the licenses covering 5.2 million pops in San Francisco and San Jose come up for grabs.

McCaw Cellular Chairman Craig McCaw
A master of brinkmanship.

It's a complicated situation. PacTel Corp., a subsidiary of Pacific Telesis, currently owns 61% of the Bay Area licenses; McCaw, 33%. (The remaining 6% is owned by Pittsburgh-based Associated Communications Corp.) The partners have a so-called shotgun agreement designed to terminate the partnership. If the agreement is triggered sometime after Sept. 26, as expected, PacTel will name a price for the licenses. McCaw then has the option to buy PacTel's share based on that price—or to sell its share to PacTel based on that same price.

Big money is involved here. Sharon Armbrust, cellular analyst at Paul Kagan Associates, believes the price could top $300 a pop—over $1 billion if McCaw buys out PacTel. At the very least, she's guessing $250.

How did this situation come about? Eight years ago McCaw and four other would-be cellular operators had applications pending with the Federal Communications Commission for the licenses. As was common practice, the group opted to divide the ownership rather than go through a long hearing process. As part of the deal, McCaw demanded the shotgun arrangement, whereby the forced sale of the properties could be triggered eight years later.

In 1986 PacTel bought out two of the partners. McCaw bought out a third partner that same year.

So what's going to happen? Neither McCaw nor PacTel is talking. Pacific Telesis, which owns cellular properties throughout California in addition to its huge telephone network, clearly wants to own cellular licenses in the Bay Area, where it is headquartered. Though cellular users cannot cross easily between wireline and nonwireline cellular systems, new software is expected to allow them to do so automatically in the near future.

Most important, PacTel has access to cash. A half-billion dollars is big money to McCaw; it is less for PacTel, whose assets are 2½ times McCaw's.

McCaw operates cellular systems up and down the California coast and would dearly love to own the systems, too. But can it afford to, given its still formidable debt load? McCaw has $360 million in cash from selling properties in Wisconsin, and rumor has it that the company is close to a

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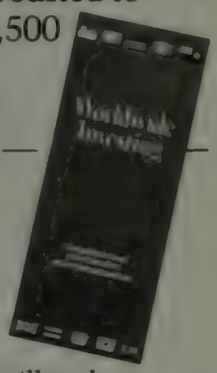

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deal to sell 2.1 million pops in Kansas City, Mo., and in Kansas. Such a deal would probably bring over $350 million. It also has about $1 billion left on a $3 billion credit line. Still, McCaw's debt-to-equity ratio remains so high as to throw a shadow on the company's future; the company's stock, recently 26¼, is still far below the $41.50 a share that British Telecommunications paid for 22% of the company in 1989. Its junk bonds yield 14.7% to maturity.

The debt load hurts McCaw in other ways than in the capital markets. Big automakers, which will soon be wiring all luxury cars for cellular and offering phones as a standard option, are said to be shying away from making service deals with McCaw, fearing it doesn't have staying power. Buying San Francisco—and taking on more debt—would likely hinder rather than help McCaw in its strategy to win national corporate accounts.

Big money is involved. Sharon Armbrust, cellular analyst at Paul Kagan Associates, believes the price for the Bay Area licenses could top $300 a pop.

Anyhow, McCaw doesn't really need the San Francisco properties. Granted, the Bay Area is a critical piece of the puzzle when it comes to implementing McCaw's national network strategy (FORBES, *Dec. 25, 1989*). But, having gained control of Lin Broadcasting—and its critical New York and Los Angeles markets—McCaw now has the clout to bring San Francisco into its network, regardless of who owns it.

So, who gets the 5-million-plus Bay Area pops? An expert at brinkmanship, McCaw may be trying to make PacTel believe he's prepared to pay dearly for the property—as he did with Lin—to drive up the price. That would serve McCaw in two ways: It would increase the value of his stake in the enterprise, netting him more cash if he sells. And a high-priced cellular deal would also be likely to buoy all cellular prices, boosting McCaw's stock price in the process.

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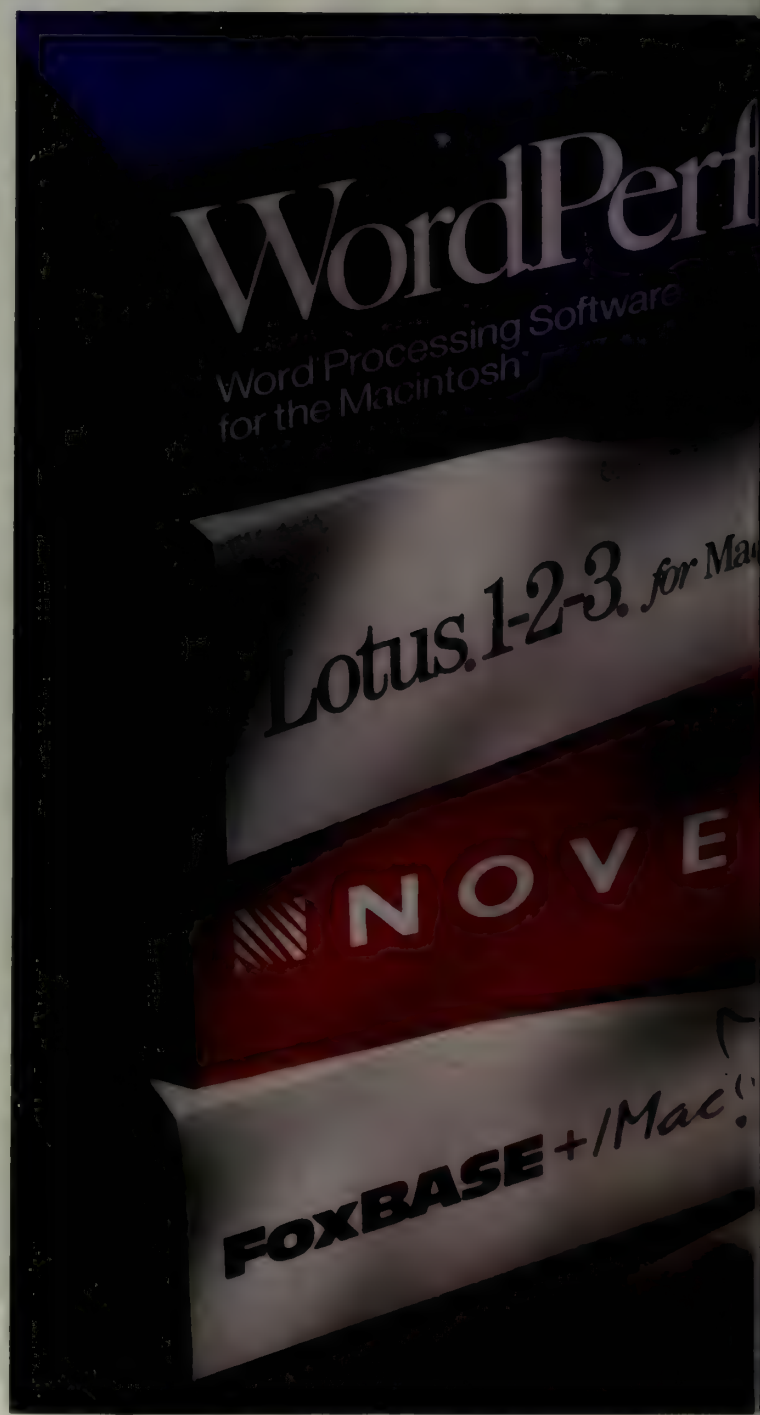

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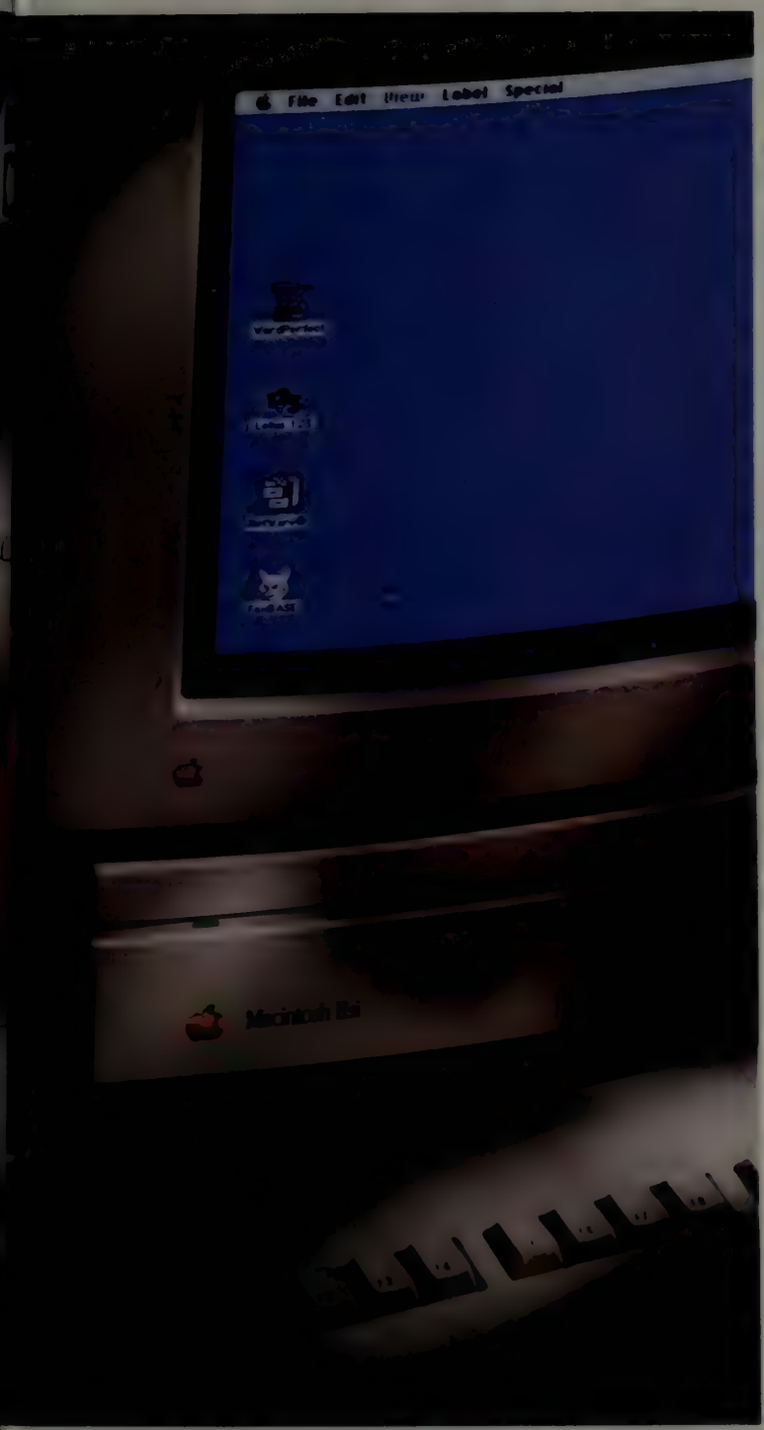

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Among America's amusement park operators, Sandusky, Ohio's Cedar Fair is far smaller than Disney and, dollar for dollar, much more profitable.

"Terror with a smile"

By Lisa Gubernick

Daniel Fecht

IN LOOKS AND MANNER, Richard Kinzel is in sharp contrast with the sounds coming from outside his office windows. Kinzel is upright, plain-spoken, has a firm handshake, wears a drip-dry short-sleeved shirt. The sounds outside are peals of laughter, punctuated by terrified screams.

Kinzel's office overlooks the Scrambler, an old-fashioned amusement park ride that spins and gyrates and plays havoc with the rider's equilibrium. The Scrambler is one of 54 rides owned and operated at the Cedar Point amusement center by Cedar Fair, L.P., of Sandusky, Ohio, of which Kinzel is chief executive.

Cedar Point is open just 123 days a year, from May to September. But in that short season over 3 million visitors pass through the gates of the 85-year-old amusement park, which is situated on 365 acres abutting Lake Erie, between Toledo and Cleveland.

Cedar Point is less expensive than Walt Disney World. Admission costs $21.95 for adults, $11.95 for kids under 48 inches tall. Disney World, admission $34.85 for adults, isn't that much more expensive, but a family of four can stay in Cedar Fair's 400-room Victorian Hotel Breakers for about $100 a night. And most of Cedar Point's visitors come by car, further keeping down the cost of a visit to Cedar Point by several hundred dollars.

The park's roots date to 1905, when a real estate developer named George Arthur Boeckling opened the Breakers as a grand lakefront resort hotel. To draw more customers, Boeckling opened the amusement park a year later. Early guests included John D. Rockefeller and Annie Oakley. In 1913 legendary football coach Knute Rockne worked at Cedar Point as a lifeguard and perfected his forward pass on the hotel's front lawn during his time off.

During the 1930s and 1940s the park faded. In the 1970s Quaker Oats, Taft Broadcasting, MCA Inc. and Marriott Corp. made passes at the company but were rebuffed.

In 1981 Britain's Pearson, Plc., owner of London's *Financial Times* and Madame Tussaud's Wax Museum, entered the picture. Pearson joined with investment bank Lazard Frères and the executives of Cedar Fair in a $149 million leveraged buyout of the company. It was a great investment.

Cedar Fair, which also operates a smaller amusement park near Minneapolis, has been a smashing success. In 1987 the partners took Cedar Fair public again as a master limited partnership. The Pearson group reaped a $130 million cash profit and held on to 25% of the equity. Today that equity stake is worth about $80 million, bringing the Pearson group's total gain to more than $200 million.

And the public investors did well, too. Cedar Fair's New York Stock Exchange-traded partnership units recently traded at 16⅝, well above the initial price of $10. (Cedar Fair currently yields 8.7%). In the last 12 months—through June—the partners received $31 million in distributions, almost the entire net profit; as a partnership Cedar Fair pays no federal income taxes.

Much of this success is the work of Richard Kinzel, who had been running Cedar Fair's Minnesota park when the Pearson group brought him back to Sandusky to manage the whole company in 1986. He knew the business well. A tavern keeper's son and college dropout who had put in a few years in food concessions at Canteen Corp. of America, Kinzel hired on at Cedar Point in 1972 as a food supervisor.

Under Kinzel's inspired management, Cedar Fair has increased its profit margins to a recent 29%, about twice that of Disney's 14%. In the last 12 months the Cedar Fair company grossed $132 million from Cedar Point and from the smaller Valleyfair, outside Minneapolis.

Cedar Fair Chief Executive Richard Kinzel (front car) on Mean Streak **To keep his midwestern customers coming back, Kinzel keeps the grounds spotless and continues to add new rides.**

A key to Cedar Fair's profitability is cost containment. Whenever possible, Kinzel expands the park without expanding management. Last year, for example, he opened up a 96-suite family-oriented hotel without adding any additional full-time managers. Responsibility for running the new hotel was vested in Joseph von der Weis, who was already responsible for accommodations.

Because it is open only a third of the year, Cedar Point is staffed mainly by college students, at around $5 to $6 an hour. The year-round management staff numbers just 60.

To keep his mostly midwestern customers coming back, Kinzel keeps the grounds spotless and adds new rides. In 1989 he built, at a cost of $8 million, a 205-foot-high roller coaster called Magnum. This year he added Mean Streak, a hair-raising 160-foot wood-framed coaster, the highest of its kind in the world. Here again the cost was modest: $7.5 million, versus the roughly $40 million Disney might spend for a new thrill ride.

What's next? Kinzel says he might be interested in using some of Cedar Fair's $44 million a year of cash flow (along with a bit of additional debt or equity) to buy another amusement park, if one becomes available.

Two years ago, during a meeting of Cedar Fair's board of directors, Kinzel treated the group to the inaugural ride on Magnum. Kinzel sat in the front car. When the car was at the top of the first peak, the ride came to a dead halt. Kinzel turned back to his white-faced directors and asked, "Now can we discuss next year's employee bonuses?"

More recently, he invited a reporter to join him on a harrowing three-minute, 75mph spin on Magnum.

"How did you like it?" asked Kinzel when the ride was over.

"Great," replied the reporter, still catching her breath.

"That's what we aim for," Kinzel shot back with a satisfied grin. "Terror with a smile."

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Dresdner Bank

Can an Algerian-born Frenchman sell retro American clothing to trendy Americans? Groupe Chevignon's young founder, Guy Azoulay, insists he can.

The big money in bomber jackets

By Katherine Weisman

Stephane Spieser

Chevignon founder Guy Azoulay
"America is a delicate market, but one we must make work."

IT MUST KILL France's cultural commissars to know that one of the hottest shops along Paris' fashionable rue Etienne Marcel, off the Place des Victoires, is Chevignon's Trading Post. Outfitted like an old-fashioned American general store—the floors are refinished railway ties, and old tin ads for soft drinks are tacked to the walls—the 7,500-square-foot shop features Santa Fe style furniture (a dining table for $2,000), patchwork quilts ($500 and up) and vintage Hawaiian shirts ($70).

But the fastest-moving merchandise in the crowded three-story shop is Chevignon's trademark collection of retro-style American clothing. Baseball caps sell for $27, wool-and-leather high school letter jackets go for $350, and blue jeans fetch $70. Glass cabinets, filled with watches, leather notebooks and cowboy-style belts round out Chevignon's carefully crafted Fifties look.

Parisians, who have long had a love-hate relationship with American culture, love the Chevignon look. According to the French subsidiary of U.S. advertising agency Foote Cone Belding, the Chevignon brand now ranks second, behind Levi's, as the most popular name in sportswear among young people in France. Last year privately held Groupe Chevignon, which operates 15 stores and sells its goods in French department stores and some 1,300 French boutiques, earned $6.5 million on revenues of $104 million.

Change the scene to Manhattan's Fifth Avenue at 16th Street, however, and it's a different story. Chevignon's elegantly appointed U.S. store, opened last September, is all but empty of shoppers. Signs in the windows announce 25% to 80% off all merchandise. By summer's end, Chevignon will be history here.

"America is a delicate market," says Chevignon's energetic founder and sole owner, 33-year-old Guy Azoulay, "but one we must make work."

Born in Algeria, Azoulay moved to Paris when he was 4. He dropped out of high school when he was 16 and spent the next five years doing odd jobs and waiting tables in trendy cafes where, he says, he observed "all the crazy people in Paris."

Azoulay noted that his trendiest customers dressed in whatever was fashionable in America. So in 1977 Azoulay, then 20, stopped waiting tables and began making clothes. Using his savings, he bought some 100 second-hand leather coats made for the Swedish army. He cut them down into jackets that looked something like Marlon Brando might have worn in *The Wild One*, and hawked them to Paris boutiques. The jackets quickly sold out, netting him around $7,000.

Thus capitalized, Azoulay began to design and manufacture his own line of leather jackets. Fortuitously, he was dating a girl whose father was in the leather trade. He taught Azoulay how to cut, stitch and style leather.

In 1981 Azoulay brought out a collection of "distressed," or worn-looking, leather bomber jackets. He created an imaginary American World War II fighter pilot and named him after a colleague with a very French name, Charles Chevignon, the name Azoulay's company would also take.

That same year, Azoulay opened his first Chevignon store, which he decorated with Fifties bric-a-brac and cowboy gear, further emphasizing the American connection.

The bomber jackets were a wild success, but Azoulay kept moving ahead. "I realized that what I did with

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BP

jackets could be transported to any part of the body," he says. Using manufacturing sources in Korea and elsewhere, Azoulay brought out jeans, T shirts and baseball jackets—everything a young Frenchman needed to complete the Fifties look.

By 1988 Azoulay was selling his apparel goods, directly and through franchises and licenses, in more than 20 countries, including England, Spain and Japan. But while a few U.S. specialty stores bought Chevignon's goods, Azoulay had never made a concerted effort to sell his apparel in the U.S.

Irresistibly, Azoulay was drawn to the American market itself—where he made a series of costly mistakes.

Having worked with U.S. sales agents—and having previously flopped with a New York shop—in 1989 Azoulay licensed the U.S. rights to Chevignon's designs and name to the U.S. subsidiary of a small Korean firm, Shinhan Group, which took the license for Korea. Shinhan also holds Korean licenses to market and distribute Polo/Ralph Lauren, Daniel Hechter and Benetton brands. Shinhan, however, had no experience selling apparel in the U.S.

Stephen Sandoval

Synthesized Americana
Baseball caps for $27.

Talk about a multicultural experience. Azoulay's licensing agreement meant that an inexperienced Korean firm was going to sell a French version of American clothes to Americans.

Rather than first attempt to build brand recognition by distributing through department stores and specialty retailers, Shinhan decided to immediately open its own retail outlets—the original plan called for as many as ten stores in the first year. The French/Korean venture targeted the younger set. But its prices—$600 for some leather coats, $60 to $75 for jeans—were aimed at their parents. On top of that, Shinhan laid out about $1.5 million for marketing, a bit modest for launching a new apparel name. Customers didn't exactly come running.

Last February, after trading bitter accusations as to who was at fault for the store's failure, Shinhan and Chevignon severed their agreement.

Azoulay, whose European business remains healthy, hasn't given up on the U.S. market and vows he'll soon try again. Next time his model is likely to be Ralph Lauren, who has succeeded brilliantly at selling an English country gentleman's look to Americans. Lauren first marketed his Polo line through select department stores and specialty retailers before opening his own stores; Azoulay hopes to find a U.S. partner to help him do the same. "If Polo can make good business in America," says Azoulay, "I don't understand why we can't."

7.48pm. The Regent of Sydney.

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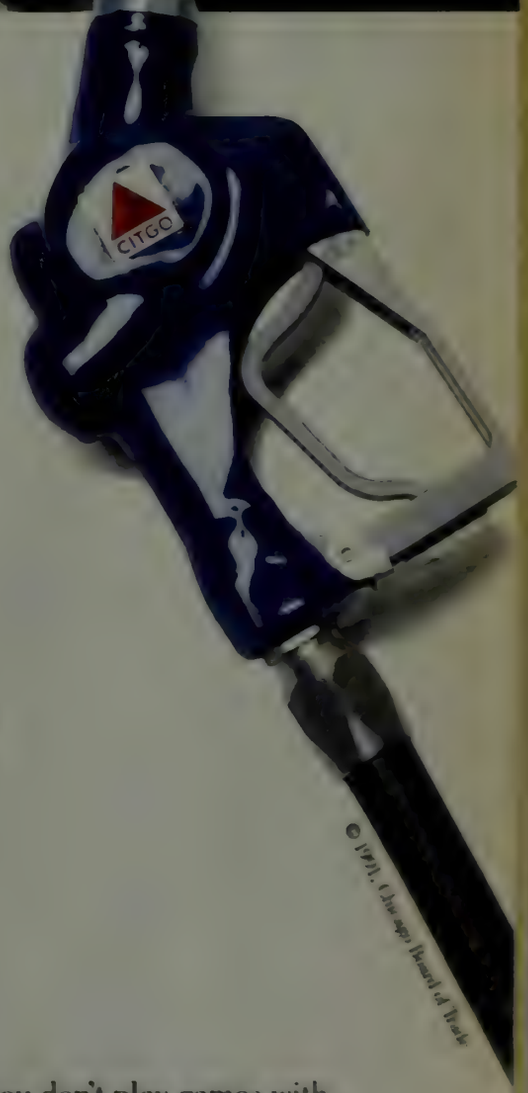

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Chicago Board of Trade

A major auto industry grows in Mexico. Which is good for the U.S., but not necessarily for Detroiters.

"We do what Mexicans do"

By Jerry Flint

WHILE THE AUTO BUSINESS flags in the U.S., it is booming in Mexico. Domestic sales there have doubled in the last three years, and so has the number of cars produced for export, mostly to the U.S. And guess what? Honda and Toyota aren't the winners. They don't sell in Mexico. The winners are Ford, General Motors and Chrysler, plus Volkswagen and Nissan.

A new Ford Taurus costs around $25,000 in Mexico, about 50% more than in the U.S. Yet Mexicans will buy 650,000 new cars and trucks this year, against 550,000 last year. But there are still only 66 cars for every 1,000 people in Mexico, versus 500 cars for every 1,000 people in the U.S. Closing that gap to, say, 120 cars per 1,000 people would bring the Mexican car market to 1 million sales.

Thanks to protection against outsiders, the companies that have invested in Mexico are making good money even on their relatively low volumes.

But Mexico offers more than a good market. It is an increasingly favorable place to build cars and parts. With its hardworking people and low wages, Mexico is becoming a key piece in Detroit's entire effort to become profitable again.

Of the nearly 1 million vehicles currently being produced in Mexico, close to 400,000 finished cars are for export, mostly to the U.S. and Canada. These include Mercury Tracers, Dodge Shadow convertibles, Buick Centurys, Volkswagen Golfs, plus millions of radios, engines and other parts. Total value: $7 billion shipped to the U.S. last year. The volume is likely to grow, particularly with the free-trade rules being drawn up now.

Volkswagen is creating an export-

Chuck Almquist, manager of GM's Rimir maquiladora plant at Matamoros

"This is a $100 million investment. We're not talking about 15 sewing machines."

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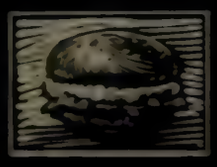
Of Study
At An Alabama
University,
We're Now Serving
Behind The Counter
At McDonald's.



Researchers at Auburn University, led by Dr. Dale Huffman, developed a 91 percent fat-free hamburger—the leanest burger you can get without losing flavor and juiciness. It's part of a whole line of leaner, healthier foods being developed at Auburn.

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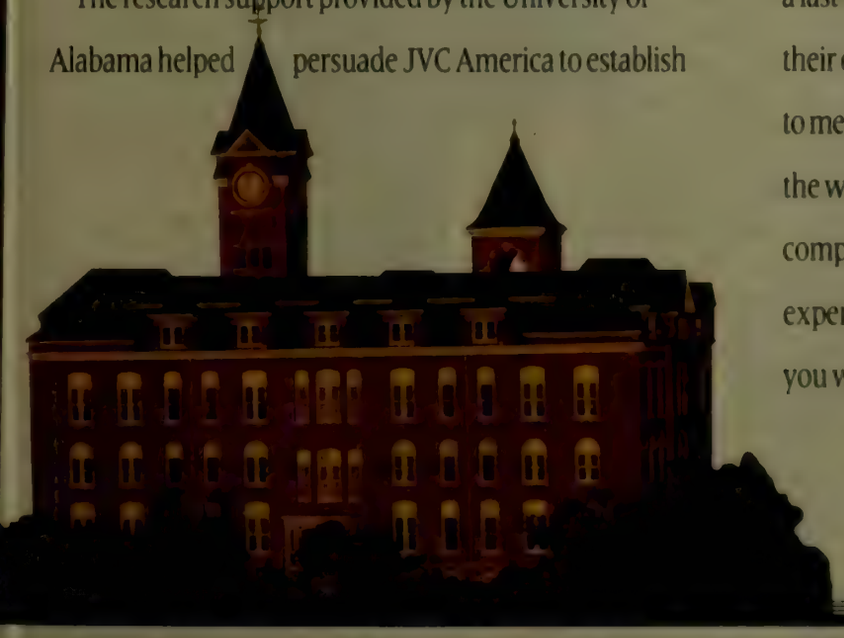
The McLean is just one success story resulting from the close partnership between research and industry in Alabama. Our universities and research centers have a long history of working with industry, developing innovative products and services.

The research support provided by the University of Alabama helped persuade JVC America to establish their national headquarters here. Faculty research in magnetic information systems supports their work in developing non-corroding magnetic tape, miniaturized systems for school language labs, and extensive library information systems.

Alabama researchers also developed a new manufacturing system for General Motors, saving one plant $3.2 million in operating costs in eight months' time. General Motors responded by establishing a new plant here to manufacture automotive cooling systems for the Saturn and the new Caprice. This in turn created enough new jobs to double the number of GM employees in the area.

With all the years of study researchers in Alabama have invested, they're well prepared to work for an auto plant, a fast-food restaurant, or a high-tech manufacturer. Offering their expertise in disciplines from agriculture to electronics to medicine. Developing products and services that improve the way people live—and keep profits sizzling. If your company thrives on research, chances are, Alabama expertise can serve you well.



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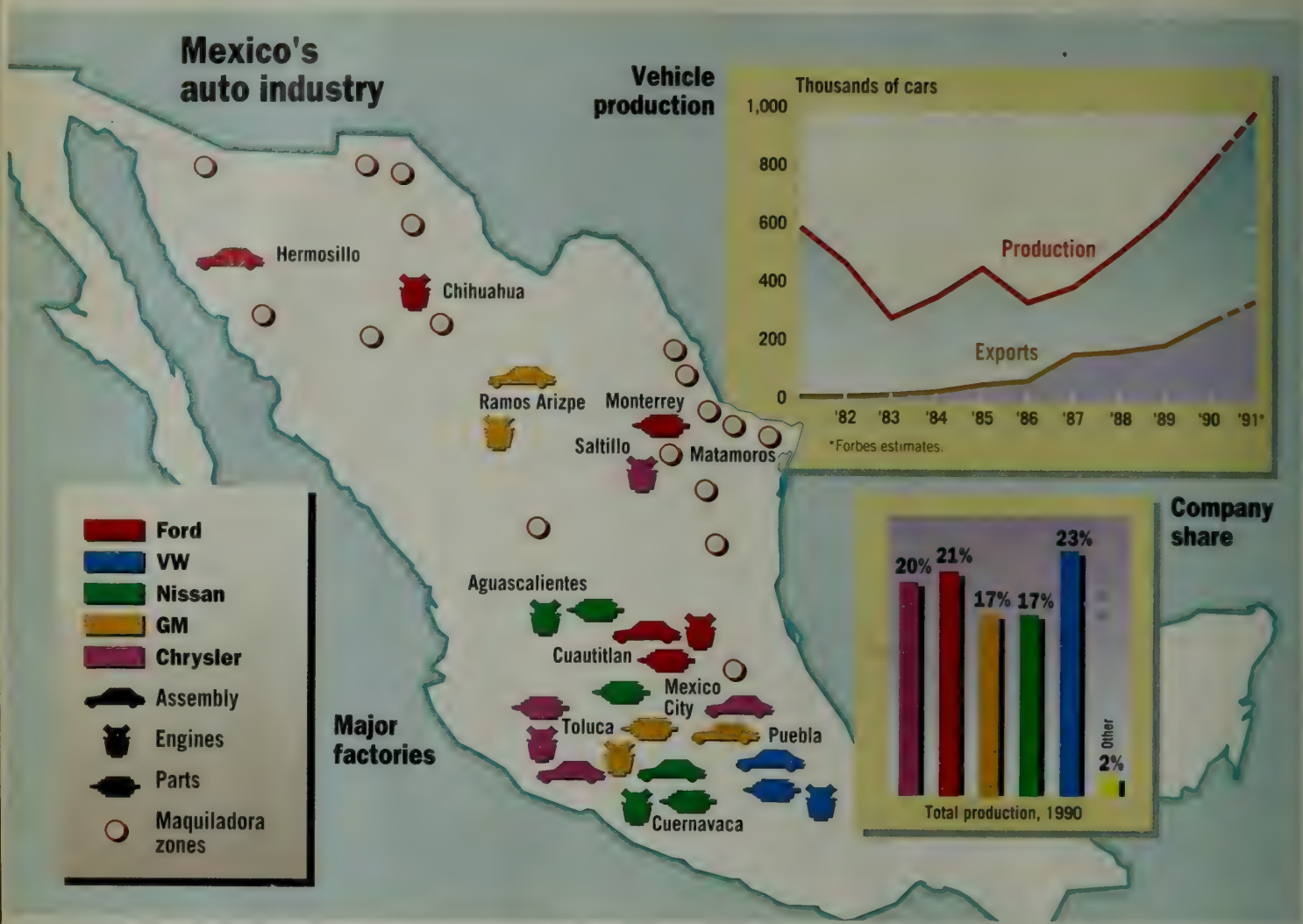

Five companies share Mexico's car/truck growth. Old plants ring Mexico City, while new factories and maquiladora parts plants are sited in the north and along the border.

oriented production base in Puebla, two hours outside Mexico City, in the shadow of the smoking Popocatépetl volcano. This year VW will send 400,000 engines and 200,000 axle sets back to Germany; from the fall of 1992 every VW Golf and Jetta sold in the U.S. and Canada will come from Puebla. "For the first time in our life, we're in sight of real economies of scale, and for our suppliers, too," says Martin Josephi, chairman of VW de Mexico.

Ford is spending $700 million to upgrade—and build new small engines at—its Chihuahua engine plant, which exported 270,000 engines last year. Nissan has proposed spending $1 billion on parts-producing plants and a new assembly plant in Mexico. Mercedes plans to assemble cars in Mexico and, if that works well, maybe export them to the U.S. Why? Because those Japanese luxury cars are killing Mercedes on price.

That Mercedes is interested in Mexico says something about the country's manufacturing quality. Last year a Massachusetts Institute of Technology study group called Ford's plant in Hermosillo better than the best plants in Japan. (The plant makes Ford Escort station wagons and Mercury Tracers for export only.) GM's chairman, Robert Stempel, says his engine plant in Mexico is his best worldwide, and his car plant at Ramos Arizpe is getting one discrepancy per car—"pretty top drawer for anybody."

"They [the foreign companies] are all over us on quality," says an executive from Grupo Summa, a major Mexican auto parts producer. "If we don't get Q1, we won't get the business. No Pentastar, we lose Chrysler. But that's all to the good." This businessman expects to triple his $100-million-a-year business in three to five years.

Mexico's basic attraction is, of course, its huge reserves of low-cost labor. In the U.S. wages and benefits run past $30 an hour for automakers. In Spain the figure is $16 an hour. In Mexico it's $1.55 an hour on the border and around $5.50 in Mexico City. That's for American companies. Mexican-owned partsmakers may not be nearly as generous. In the Mexico City area, for instance, the minimum wage is $4 a day.

Okay, wages are low, but how's the productivity?

At Chrysler's plant at Toluca, 4,000 production workers turn out 30 automobiles an hour. In a typical U.S. plant, 2,400 workers would roll 60 an hour. So the U.S plant is three and a half times more productive. But U.S. workers are at least ten times more expensive than their Mexican

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Wilson Quezada

Pulling bumper fronts at Rimir
It's no surprise that Mexican workers are cheap by U.S. standards. The big surprise is the quality of their work.

counterparts; net, the advantage swings to Mexico—and will continue to do so as new investment lifts Mexican productivity.

Not surprisingly, the United Auto Workers union is resisting the proposed U.S./Mexico free-trade agreement. But Martin Josephi, head of VW in Mexico, points out: "If the American companies don't ... shift to Mexico and get lower costs, they'll close the plants and lose the jobs anyway."

In one sense the Mexican plants may be saving some U.S. jobs. GM Chairman Stempel points to GM's Deltronicos *maquiladora*—foreign parts, Mexican assembly—plant in Matamoros, where 4,000 workers assemble 3 million car radios a year. This is no sweatshop operation. The plant is clean, air-conditioned and filled with electronic equipment, even a laser etcher. Its workers, mostly women in their early 20s, are better dressed at work than are people on the streets of Matamoros.

The plant's radios are shipped to the U.S. for installation in American-made GM cars and trucks. In a curious way, this low-wage plant helps preserve the jobs at GM's electronics complex in Kokomo, Ind., where 10,000 people work. "The high-tech in Kokomo is balanced with the manual work offshore," Stempel says. By investing in Mexico, he says, "we saved jobs rather than migrating jobs."

Rimir, another GM *maquiladora* at Matamoros, makes plastic bumper facias (fronts) and trim. A sister plant, in Anderson, Ind., makes similar parts. Rimir's low costs average down GM's total facia bill. "If I wasn't here our sister plant in Anderson wouldn't be here. We'd be out of the facia business," says Chuck Almquist, the plant manager. But Almquist makes another point. "Look, if we were just asking for cheap labor, we'd have all the plants in Haiti. GM likes to build where we sell. This is a $100 million investment. We're not talking about 15 sewing machines."

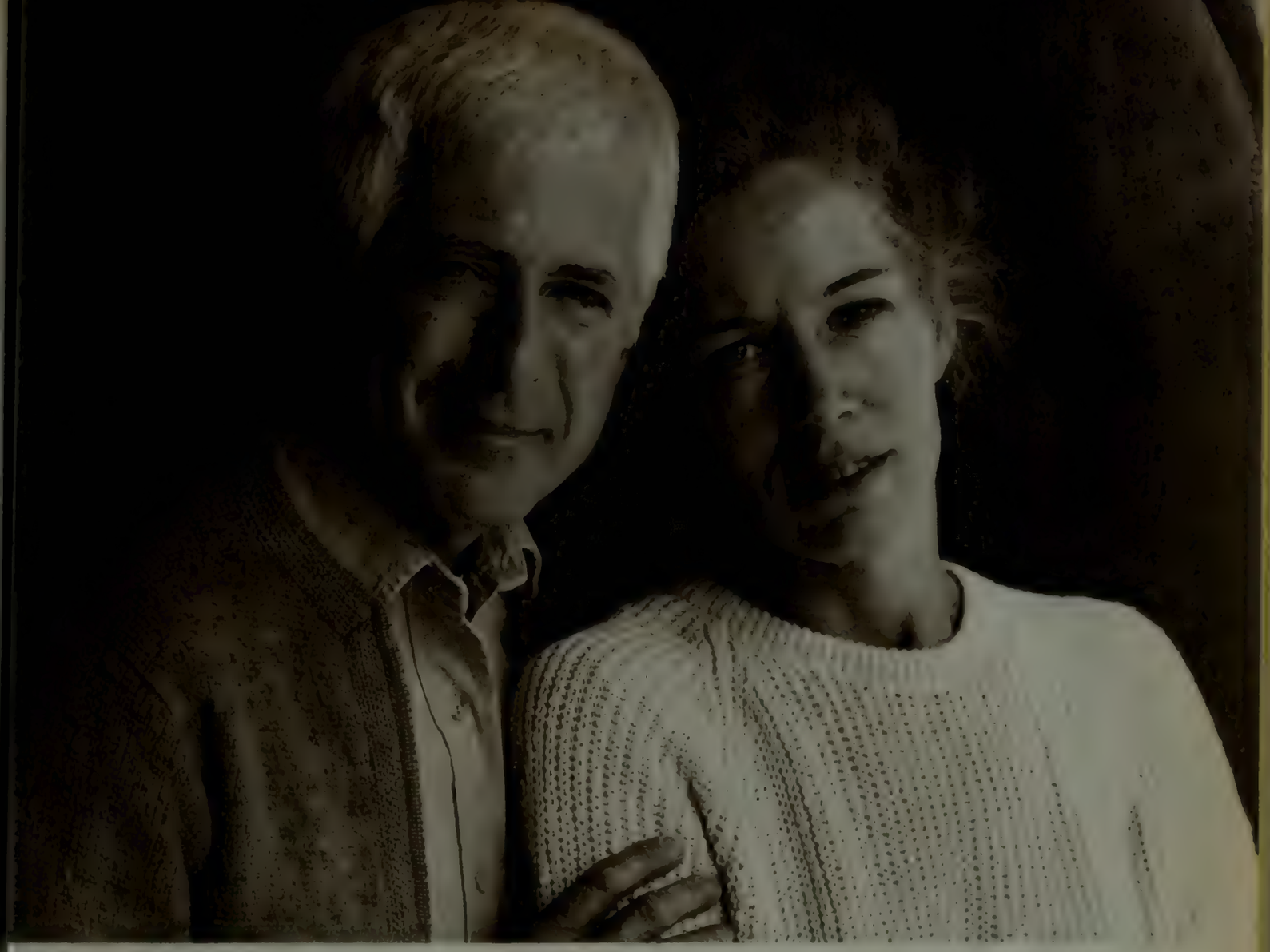
In the longer run wages will rise in Mexican automobile plants, but that will not end Mexico's advantage: There is still plenty of room to offset the cost increases with more investment in equipment. While a few Mexican auto plants, like Ford's Hermosillo plant, are state-of-the-art, most are years, decades, generations behind in technology. Cars are painted by hand with spray guns. Bumps and dings are filed down and polished with hand-held files and metal finishing discs. You hear the pounding of hammers on metal; there are greasy pits with men working beneath cars. Fits are measured on old-fashioned jigs. Henry Ford—the original Henry Ford—would have felt at home in the Nissan plant at Cuernavaca.

It helps that Mexican labor is highly motivated. Roberto Gutierrez, the swarthy manager of Chrysler's Toluca plant, manages 4,000 production workers. He tells FORBES: "I said we don't do what the Japanese or anybody else does. We do what Mexicans do. People say we don't like to work too much. You like siesta. You don't want to be active. 'Okay,' I tell my people, 'continue that way. But do the job right, the first time.'

"We are very proud to say that [our quality] is better than the U.S.," Gutierrez continues. "People always ask me how many robots I use to build cars. I say I have 4,000 robots."

"A man loses this $1.50-an-hour job, he goes to 25 cents an hour, or maybe nothing," says Chrysler de Mexico's president, Carlos Lobo. "He cannot afford to lose the best job he will ever have." Mexican unions, unlike their U.S. counterparts, let the companies run the factories.

The carmakers are anxiously awaiting the final drafting of the U.S./Mexico trade pact. While present-



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Chrysler's plant at Toluca

"A man loses this $1.50-an-hour job, he goes to 25 cents or maybe nothing."

ing them with opportunities, the agreement has its pitfalls for them, too. A special auto side pact is under negotiation now.

It's too early to know what the agreement will provide. But it is clear that the five automakers in Mexico, having invested billions in Mexican industry at the demand of the Mexican government, want protection.

They don't want to see Toyotas and Hondas taking their profitable volume away with cars exported south from new nonunion plants in Kentucky and Ohio. Nor do they want to see "screwdriver plants" in Mexico, with Mexican workers putting Japanese vehicles together from Japanese parts and shipping them north duty free, as Mexican cars.

In a larger sense, both countries have a lot to gain from the continued development of the Mexican industry. The U.S. wants a prosperous, stable Mexico, and the automobile industry is a magnificent engine for raising unskilled workers into the middle class. It creates not only better-paying jobs but also a class of skilled workers and managers, and demand for roads, services, gas stations, drive-ins, repairs.

Perhaps most important, it creates mobility and enables people to look about for the best job, the best price, the best place to live. Yes, growth of the Mexican industry will cost U.S. autoworkers jobs, but these jobs may be doomed anyway. As David Hendrickson, manager of GM's Deltronics plant in Matamoros, puts it: "I'd rather see a job go to Mexico than to Taiwan."

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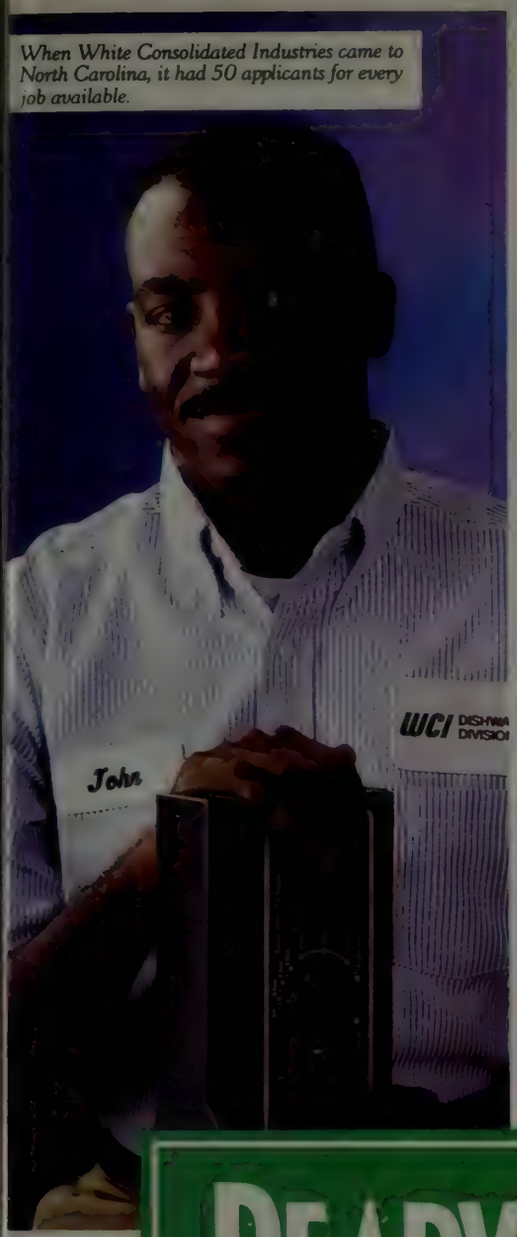

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And John McCloskey, Vice President of Operations for GKN said, "The quality of the employees in our North Carolina plants is reflected in the number of awards we've received. These include the Toyota Quality Performance Award, Honda's Quality Performance Award, Delivery Performance Award and Most Improved Supplier Award, Ford Q1 awards and the Chrysler Motors Quality Excellence Award."

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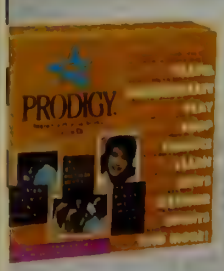

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Have you picked up a bridal magazine lately? Don't strain your back.

The newlywed game

By Matthew Schifrin

IF AMERICAN consumers in the 1990s are rejecting the ostentatious consumption of the 1980s, you would never know it from the wedding business. More than $32 billion was spent on first-time weddings last year, up from $28 billion in 1988 and nearly double the amount in 1980. Average cost of a wedding last year: over $19,000, including an engagement ring at an average of $2,200; a bridal gown ($800); invitations ($286); videographers and photographers ($900); and honeymoon ($3,200).

In a country where 90% of all marriageable people do marry, the nuptial business shows no signs of slowing down. In the 1980s there were around 2.4 million marriages per year. (The figure includes all marriages, first, second or whatever.) Now actuaries at the Social Security Administration predict that marriages should increase slightly by 1995 and climb by 11% by 2010.

How can this be, if the youngest baby boomers, those born in 1964, are already in their mid-20s? The answer, say demographers and others who follow marriage trends, is that young Americans continue to defer marriage until their late 20s, early 30s and later. According to the U.S. Department of Health & Human Services, the average age of first marriages in 1987 for men and women was 26.4 and 24.5, respectively. That compares with average ages of 23.8 and 21.6 20 years ago.

Another factor pushing up marriage rates: divorce. Every year about 1 million couples divorce, and around 75% of divorced people remarry within five years. That puts a kind of floor under the marriage industry.

Perhaps the clearest indication of the power of the wedding industry boom is the volume of advertising in bridal magazines. Ad pages in *Modern Bride*, for example, are at an alltime high, despite the general advertising downturn. Measured by ad pages in the first six months of this year (and helped somewhat by the slowdown at other magazines), *Bride's* is now the country's largest magazine and *Modern Bride* has jumped to fourth place (*Business Week* and FORBES are numbers two and three, respectively).

One maker of bridal gowns, Demetrios J. Elias, of Ilissa Bridals in New York, has even started his own bridal magazine, *For the Bride by Demetrios*, to cash in on the march down the aisle. The five national bridal magazines (the other two are *Bridal Guide* and *Elegant Bride*) mostly come out every other month, cost around $5, and are de rigueur reading for almost every bride-to-be.

As the advertisements in these magazines show, the wedding market is attracting attention from all kinds of companies, many of which badly need whatever business they can drum up.

For retailers, particularly department stores, bridal registries are one of the few things to crow about. "Most of the other departments have been up modestly or flat," says Carol Spellman, the director of bridal registries at Bloomingdale's, "while our business is up about 15% from last year."

Travel companies, also muddling through a slow year, want the honeymoon business. American Express recently teamed up with dozens of resort hotels and began buying thick ad supplements in the bridal magazines; AmEx is also peddling its charge card in their pages. The wedding market "is recession-proof," comments Thomas Garzilli, AmEx's vice president of marketing and sales. "Just-marrieds don't postpone their honeymoon."

Corning Co. of Corning, N.Y. has increased its advertising of dinnerware and cookware in three bridal magazines, and is showing videos at bridal registries. Says Neil Hart, director of

Memory Shop

Elizabeth Taylor and Spencer Tracy in "Father of the Bride"

Average wedding cost: $19,000. At least suppliers are happy.

marketing at Corning: "Once someone buys a Corning product, they usually stay with us for life."

Inevitably, nontraditional suppliers are joining the rush for the bride and groom's affections. General Motors' Saturn Corp. subsidiary, for example, recently began advertising its new Saturn sports cars in *Modern Bride*. Finance companies like Citibank and Metropolitan Life have begun specific marketing schemes aimed at the about-to-be marrieds. And so, on a regional basis, have real estate firms like Century 21.

American Cyanamid is advertising its Dynatrim diet pills in the bridal market. This is complemented by Godiva, which has been hawking its chocolate party favors. Du Pont is pushing Teflon pots and pans and Milliken is trying to bolster its textile operation by marketing table linens. The list goes on and on, and includes small-appliance makers and furniture companies, like Serta and its Perfect Sleeper mattresses.

Nontraditional suppliers are joining the rush for the bride and groom's affections. GM has begun advertising Saturn cars in bridal magazines.

New entrants to this market include Orvis Co., which opened a bridal registry for couples who might like to hunt or go fly fishing. Liquor distributor Heublein Inc. is pushing its Truffles Chocolate Liqueur.

What about all those people who divorce and then remarry? These second-, third- and fourth-time-around couples may be older and wiser, but they also tend to be more affluent and just as likely to want to cement their new partnerships with big parties and exotic honeymoons.

"Just about anything goes in second marriages," gushes Lorraine Levinson, director of marketing at *Bride's* magazine, "even elaborate white wedding gowns." Second marriages may be, as Samuel Johnson said, a triumph of hope over experience. But they're pure gold for the companies that successfully cater to them. ■

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Spin while you can

SPINOFFS ARE IN. Honeywell, May Department Stores, Quaker Oats, Whitman and Santa Fe Pacific are among the companies that have distributed assets to their own shareholders in the last 12 months. Whittaker, Universal Corp. and several others are in the process of getting rid of businesses by distributing them pro rata to their shareholders.

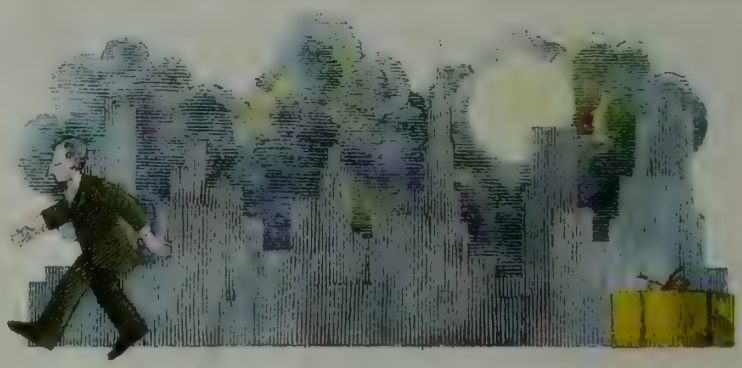
The reason? "Spinoffs are the only remaining way to divest assets tax free," says Scott Greiper, publisher of the *Spinoff Report*, a New York-based newsletter on the subject. Here's why:

In 1986 Congress, reacting to the merger wave, completed the repeal of the so-called General Utilities doctrine. Under that doctrine, shareholders could sell the appreciated assets of a corporation at a profit, immediately distribute the proceeds in dividends and owe no corporate tax on the corporate gain. Now the corporation must pay a tax on the gain, and the shareholders must pay again when the company is liquidated.

Spinoffs escaped the 1986 crackdown. The theory here is that the spinoff isn't a sale but more like a reorganization, and the tax code doesn't tax reorganizations. So a parent firm can still divest a business by distributing 100% of its stock in it to shareholders. Investors pay tax when selling this stock, of course, but the corporation doesn't get hit as well.

Why do a spinoff? It is an excellent way "to get rid of a piece that just doesn't fit, or even shove a dog out the door," says Lydia Kess, tax expert at New York law firm Davis Polk & Wardwell. An example of the former is the recent Quaker Oats spinoff of Fisher-Price toys: The stable food company didn't want to be in the volatile toy business.

Another advantage of spinoffs is that the parent can extract a tax-free dividend prior to the spinoff up to the amount of its cost in the business that is spun off. May Department Stores, for example, pulled $263 million out of its discount retailer Venture Stores before divesting it. An alternative to this ploy is to have the parent shift a portion of its unsecured debt to the subsidiary.



Chas B. Slackman

Spinoff engineers can get even cleverer. When Affiliated Publications, owner of the *Boston Globe*, owned 47% of McCaw Cellular, on which it had a huge profit, it had no way to get rid of McCaw directly without owing $1 billion in tax. Affiliated couldn't spin off McCaw, because the law restricts spinoffs to situations where the parent owns 80% or more. So Affiliated spun off the newspaper from Affiliated, then merged the old parent into McCaw in exchange for McCaw stock. Shareholders of Affiliated wound up with stock in the corporation (now renamed Affiliated) that owned the *Boston Globe* and shares in McCaw—two stocks instead of one—tax free.

How do spun-off stocks do? Usually pretty well. A study by three researchers at Penn State found that from 1965 to 1988 spinoffs, in the first three years after coming out, beat the market by better than seven points a year, and that's after allowing for their greater risk.

But the Internal Revenue Service may spoil the party. "We've ratcheted up standards [for spinoffs]," says one official, "because we feel that in the past we were burned."

The "standard" here is called valid business purpose. To qualify for tax-free status, a spinoff must have one. But this legal definition is eccentric, to say the least. "Enhancing shareholder value doesn't begin to qualify," says Lehman Brothers' Robert Willens. Neither does separating a stable business from a volatile business. The motive of dodging federal tax is totally out; perpetrators of reorganizations profess never to harbor it.

So what does qualify as a motive? Curiously enough, saving on state taxes is a valid business purpose. So is saving on financing or insurance costs, or contending with competition. If your company owns a subsidiary that is losing business because its customers are your competitors, the IRS will probably bless your spinoff.

Sometimes the standards have an air of whimsy. Davis Polk lawyer Lydia Kess recalls being rebuffed when she asked for an advance IRS ruling on a division that was about to be nationalized abroad. The IRS said, she recalls, "Well, the tanks aren't in the streets yet."

It is taking longer and longer to get an IRS ruling decreeing a spinoff tax free before it happens, and some companies are even going ahead without the advance ruling. So, if you are thinking of doing a spinoff, don't dawdle. A few Capitol Hill staffers feel that spinoffs are loopholes. Says Ernst & Young's David Berenson, an astute observer of the scene, "There was an effort to get rid of them a few years ago. The proposals are lying quietly in a drawer until the time is right again." –L.S.

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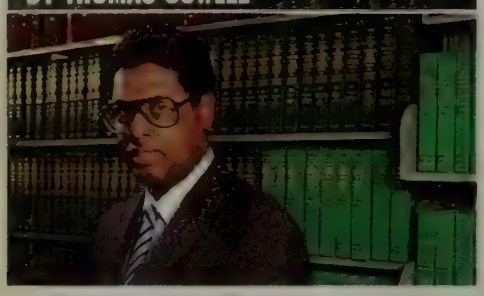
In baseball, the racial composition of third basemen is radically different from the racial composition of centerfielders. What does this prove?

Zeitgeist versus the facts

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

ONE OF THE SAD SIGNS of our times was the media reaction to a recent study showing that doctors treated men's cardiac disorders more aggressively than they treated women's cardiac disorders. It was played as sex discrimination, a denigration of women and yet another grievance against society.

Amid the usual chorus of condemnation, one physician pointed out the simple fact that middle-aged men were far more likely to die of heart attacks than middle-aged women. That may not only be part of the reason why doctors react more strongly to cardiac problems in men; it may also have something to do with the reactions of men and women themselves—who, after all, have something to say about what kind of treatment they will agree to undergo.

This whole episode revealed once more a media primed to denounce and wholly uncritical of the evidence behind its denunciations. Unfortunately, the substitution of the *zeitgeist* for evidence extends far beyond the media and encompasses leading academic scholars and the highest courts in the land. The grand insanity of our times is the presupposition that social groups are so much alike that statistical disparities between them must reflect differences between the ways they are treated by others.

This unsubstantiated dogma can cost an employer millions of dollars in a discrimination lawsuit, even if he never discriminated against anyone. If statistics on the racial or sexual composition of his employees do not match the presuppositions of the *zeitgeist*, then the employer's hiring criteria are said to have a

"disparate impact"—and that often turns out to be pretty much the same as saying that the employer is guilty of discrimination.

What lawyers and judges pompously call "disparate impact" is commonplace in virtually all human activities in societies around the world.

In the U.S.S.R., nearly eight times as much cognac is consumed per capita in Estonia as in Soviet Georgia. When Nigeria became an independent nation, three-quarters of the soldiers in its army came from the country's northern regions, while three-quarters of the officers came from the southern regions. Innumerable countries have had whole industries owned and operated primarily by members of a racial or ethnic minority—by the Chinese in Southeast Asia, Indians in East Africa, Lebanese in West Africa, Germans in Brazil, Tamils in Sri Lanka, Jews in Eastern Europe, or Italians in Argentina, among others. An international study of military forces and police forces failed to turn up even one such organization that was ethnically representative of its society. Sometimes a country's navy has had a different ethnic composition from that same country's army or air force.

Virtually nowhere can one find that even or random distribution of people presupposed by "disparate impact" theory. Virtually everything that human beings do, they do differently. Sometimes we can figure out the reasons, but at other times we don't have a clue.

Sometimes the patterns which emerge are influenced by institutional policies, but in other cases they clearly are not. For example, immigrants to the U.S. are free to settle in whatever geographical region they choose—and yet no group of immigrants or their descendants is evenly or randomly distributed across the country.

A hundred years after the peak of German immigration to the U.S., Americans of German ancestry are still geographically distributed in a distinctive pattern, wholly different from the geographical distribution of people of Hispanic or Japanese ancestry, for example. Highly distinctive geographical settlement patterns are characteristic of innumerable racial or ethnic groups in innumerable countries. Most of the Jews who settled in and around Sydney, Australia, came from a different part of Europe than those Jews who settled in and around Melbourne, and their descendants are quite self-consciously different to this day. Within Italian neighborhoods in Buenos Aires, Toronto and New York, people from different parts of Italy are clustered on different streets.

In baseball, the racial composition of third basemen is radically different from the racial composition of centerfielders—and has been for years. If players for these two positions were hired by different organizations, there is no question that whoever hired third basemen would have been hit with a multimillion-dollar lawsuit for discrimination.

Wherever one does find a proportionate representation of groups in particular industries or occupations, there is a very good chance that it is due to government-imposed quotas. Only in this way have countries like Nigeria or Sri Lanka changed their occupational statistics, which once showed large "disparate impacts." Instead, they have had civil wars between groups polarized politically in the struggle for government preferences and quotas. ■

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Not just a new Ford... a new Ford attitude.

Andrew Mellon's grandson, Timothy Mellon, tried to make his own fortune putting together small railroads. Some of the assets are now in bankruptcy.

Where did the locomotives go?

By James R. Norman

A RUDE SHOCK awaited Francis Dicello, the trustee of the Delaware & Hudson Railway, after the D&H was put into bankruptcy in 1988. Gone were some 20 locomotives. Gone, too, was the D&H's nonrail real estate and some lucrative fiber-optic cable rights. These and just about everything else that wasn't nailed down had been transferred to D&H's solvent owner, Timothy Mellon's Guilford Transportation Industries Inc. "The D&H came to us naked," says Charles H. White, counsel for the trustee. "It was an empty shell."

Dean Abramson

Guilford Chairman Tim Mellon

Did he upstream D&H assets?

One thing left besides the D&H's 2,000 miles of track and trackage rights in New York and Pennsylvania was a mountain of liabilities, about $200 million worth. This included $96 million owed to the federal government. Under trustee Dicello's proposed reorganization plan, which is in the final stages of approval, the federal government would get back less than $1 million. New York State, which says it invested $60 million in the D&H, would collect just $177,000.

Other D&H creditors would do somewhat better. Some secured lenders would get 70 cents on the dollar. Mellon Bank would get barely $7 million on its nearly $15 million secured claim—although it may collect the rest from Guilford, the D&H's old parent company.

Burdened with high labor costs on the D&H, Mellon put it into bankruptcy in 1988. But his Guilford Transportation Industries rolls on with the Boston & Maine and Maine Central.

Guilford gets nothing on its $62 million in claims, and it would have to turn back $500,000 worth of land to the D&H trustee. But there is no requirement that Guilford give back the other property that it transferred from the D&H.

Trustee Dicello has filed a dozen lawsuits against Guilford alleging that Guilford fraudulently removed more than $20 million worth of assets from the D&H for far less than they were worth. Mellon Bank is also a defendant in one suit. The defendants say they did nothing wrong and that the assets were taken to repay intercompany debt. But they are agreeing to go along with Dicello's plan if he drops his suits.

All this is a major setback for Tim Mellon, Guilford's chairman and principal owner. The 49-year-old reclusive former peace activist is a grandson of the great Andrew Mellon. With the help of his inherited wealth, Tim Mellon in the 1980s built a New England railroad empire around the D&H, the Boston & Maine and the Maine Central.

To make the railroads profitable, Mellon had to get tough with the powerful rail unions. These fought back, tooth and nail. Guilford Transportation has been slow to recover from disastrous strikes in 1986 and 1987 and two huge labor arbitration awards, one still in dispute. Weak traffic in its depressed New England market has helped to make matters even worse.

The railroad unions do not like Tim Mellon, so union sources are not entirely to be trusted when they say that Mellon has shifted equipment from the Boston & Maine to Guilford's potentially more viable Maine Central. Could Tim Mellon have the B&M on the same track to bankruptcy as the D&H, as has long been rumored? Guilford denies that but admits it has transferred title to some valuable land from the B&M's books to its Guilford Real Estate subsidiary.

When Companies Tackle Major Projects, Intergraph Is Usually Somewhere In The Picture.

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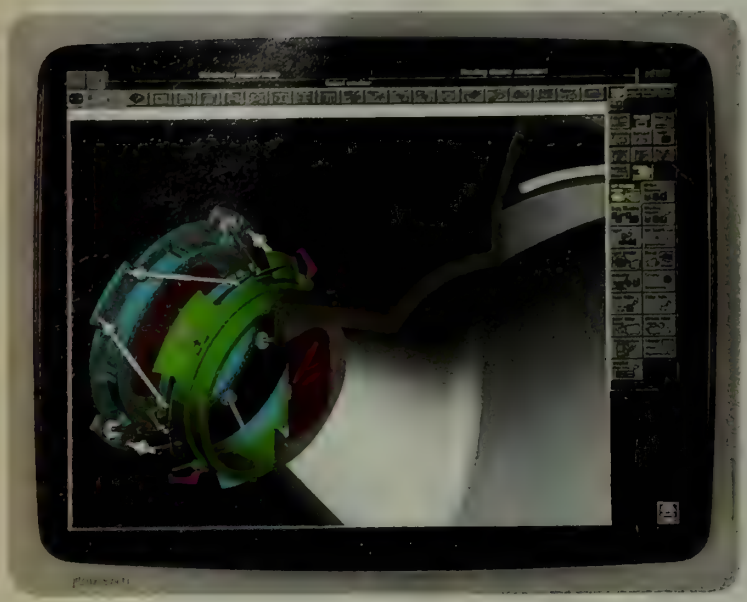
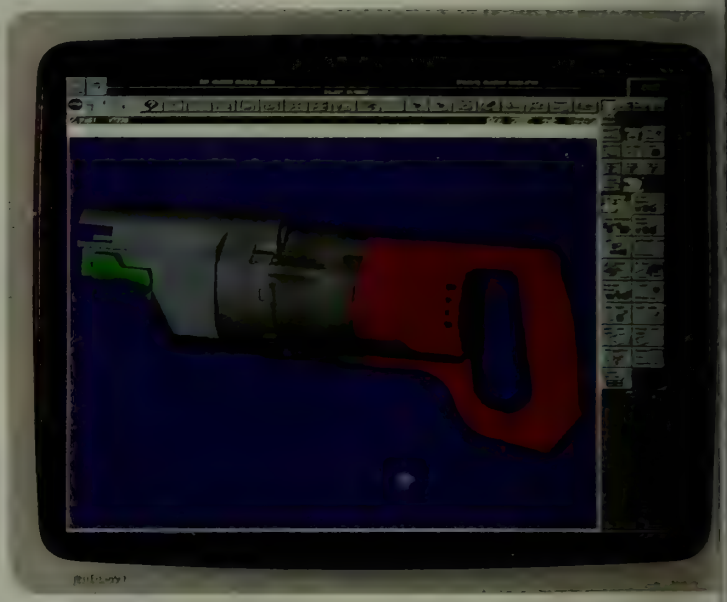
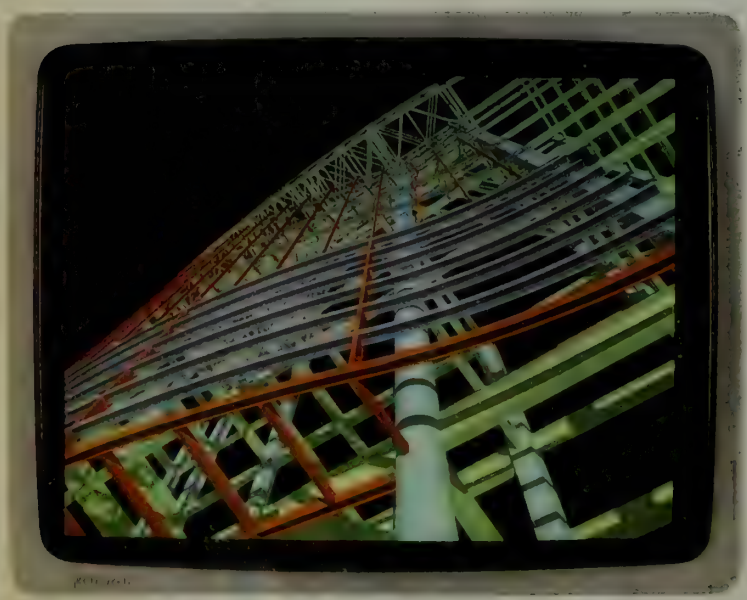


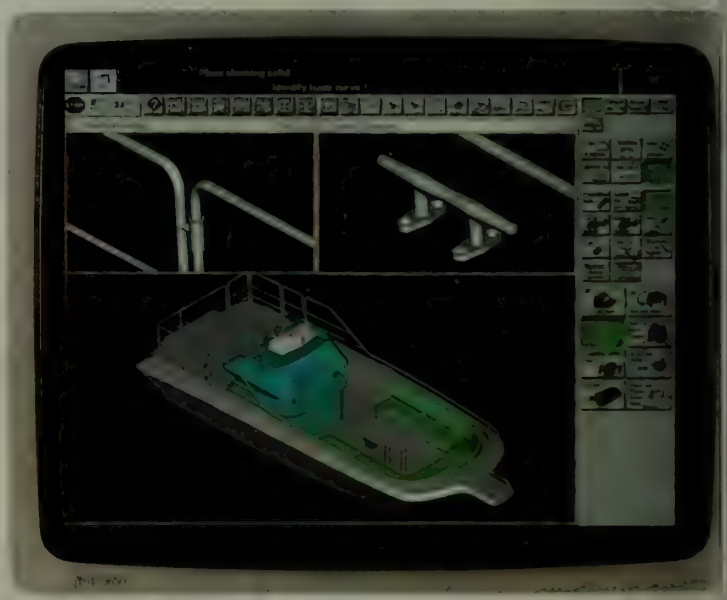
NASA designed this docking mechanism for the Space Station using an Intergraph system.



Milwaukee Electric Tool optimized the engineering design for its new Super Sawzall® on an Intergraph system.



Intergraph's ModelView application helps Japan's *Takenaka Corporation* visualize building designs.



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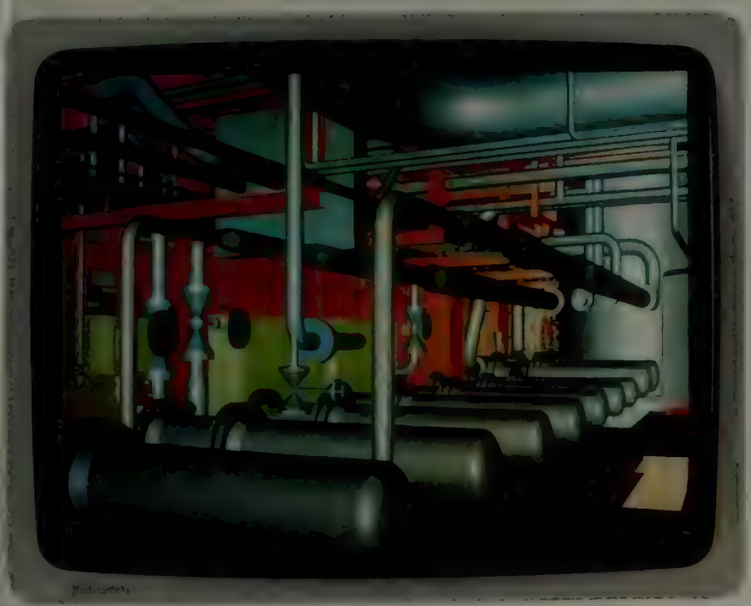

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Guilford President David Fink
He claims the company is making money and will be debt-free in 18 months. Proceeds from real estate sales, he adds, are being reinvested in the railroad.

Meanwhile, Guilford will owe Mellon Bank around $7 million from the D&H failure. Capital spending has been trimmed. Guilford hasn't bought a new locomotive in three years and is using rails from sidings along its main line in Massachusetts to replace worn main line track. That upsets the Federal Railway Administration, which lent the B&M $26 million to rebuild that line on the proviso that it be kept in good repair. Guilford is now negotiating to buy out the FRA's loan, at a big discount.

David Fink, Guilford's pugnacious president, scoffs at stories that Mellon is preparing the B&M for a D&H-style bankruptcy. Fink says that his and Mellon's struggle against union featherbedding has yielded Guilford some of the lowest pay scales and most flexible work rules in the rail industry. He adds that parent Guilford's profits are up, despite another revenue drop (to about $120 million last year). Payrolls have shrunk from around 5,000 in 1984 to 1,100. Cash flow is about $15 million.

Fink claims Tim Mellon rebuffed several anonymous offers in recent years to buy Guilford's remaining railroads for up to $130 million.

"Tim Mellon," avers Fink, "has yet to take a dime out of this company." That's probably true, but then he hardly needs the money. He and his sister, Catherine Mellon Conover, have a trust fund left to them by their grandfather, making them each worth around $275 million. Tim Mellon's pride may be dented, but he's hardly broke. After all, the federal government, New York State and his D&H creditors lost a lot more money than he did.

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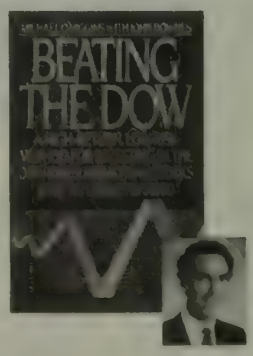

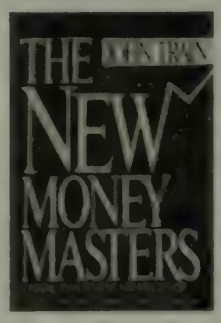

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GEORGIA
The State of Business Today

Dallas' Duke Rudman is a throwback to old-time wildcatters who punched holes where no one else thought there was oil. With this difference: Duke is never going to go broke.

"My father said I was stupid"

By Toni Mack

MAYER BILLY (Duke) Rudman, 81, recalls that when he won an oratory contest at age 15, his father accused him of cozying up to the judges. "He was always telling me I was no good," says Rudman. "I've been trying to forgive him for 40 years since he died, and I can't seem to do it."

Maybe he hasn't forgiven, but Dallasite Duke Rudman has done a pretty good job of proving his father wrong by becoming one of the country's most successful wildcat oil drillers. Known as "Duke" for his flamboyant wardrobe, he likes to flaunt a red satin tuxedo, a green velvet jumpsuit and an Edwardian overcoat and owns 50 pairs of cowboy boots and upwards of 250 hats. He can afford these vanities: Rudman is worth an estimated $220 million.

Dallas wildcatter M.B. (Duke) Rudman

"I wouldn't buy a proven deal if it was a dead-gut cinch."

Like a lot of rich people, Rudman started inauspiciously. He was kicked out of the University of Oklahoma in 1928 at age 18 for, he says, courting girls too much and studying too little. He worked a few years for his father, who was branching out from selling oilfield equipment into oil-drilling ventures. Talking about those days, more than six decades ago, Rudman's antagonism for his father breaks out again: "He wouldn't pay me my share of the oil deals I brought him, so I quit." Young Rudman traded interests in his wells for pigs, tires, radios and anything he could sell to raise cash for drilling. He then drilled 29 straight dry holes before hitting his first wet one.

He hit it big in the late 1940s, when he leased, at about 40 cents an acre, some 17,000 acres in North Dakota's Williston Basin, which then had no oil production. "My father," Rudman remembers, "said I was stupid."

Stupid he was not. Part of that Williston acreage made him seriously wealthy in 1951 when what is now Amerada Hess drilled the discovery well that opened a huge hydrocarbon basin. "It took me out of the jerk class," says Rudman. "People who never spoke to me before began asking me to dinner."

But not before he learned to hate debt and bankers. He had borrowed $35,000 to build a house. In 1951 the bank pressed him to repay the loan, forcing him to sell 10,000 of his

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Parker

Partnerships In Engineering Creativity

It took a visionary to dream up Robosaurus. But it took Parker Hannifin to bring it to life.

Engineer Doug Malewicki challenges convention. An award-winning inventor who extends the bounds of the possible, Malewicki has designed a host of unlikely vehicles, including a three-wheeled, gas-sipping car that gets more than 150 miles to the gallon. But nothing compares in magnitude to Robosaurus, a huge electro-hydraulic monster that chews up–and then throws away–cars, to the delight of fans at auto shows nationwide.

Standing 40 feet tall, Malewicki's hi-tech Tyrannosaurus isn't just whimsy. Robosaurus was designed to draw crowds–as it tours arenas and captures imaginations.

And that was the engineering challenge: Robosaurus had to pack maximum entertainment value into a highly reliable design that could be easily transported and erected. Its 58,000-pound steel skeleton had to simultaneously grip, lift, and crush two-ton cars, while ensuring the safety of the operator and the audience.

To give Robosaurus life, Malewicki relied on the engineering know-how of Parker Hannifin Corporation, the world's largest manufacturer of motion-control components and systems. Working with a team of Parker engineers, Malewicki tapped the talents of eight of their divisions and borrowed ideas from Parker technologies spanning industries as diverse as aerospace and automotive manufacturing.

Engineers who have seen Robosaurus in action call it a "powerful demonstration of state-of-the-art hydraulic technology." Powered by a 500-horsepower, twin-turbo diesel engine, and controlled by a 500 gallon hydraulic fluid system, Robosaurus required some of Parker's most advanced components in order to replicate the menacing action of the original Tyrannosaurus.

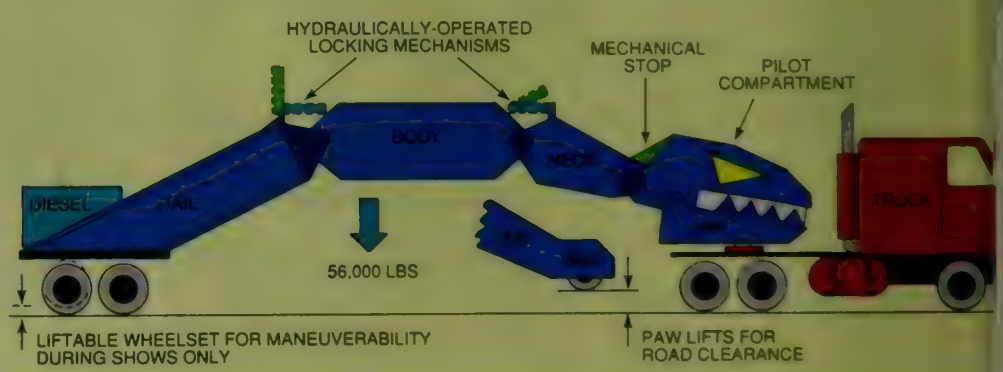
The jaws alone proved an engineering challenge. Their elongated reptilian design provided little leverage and no mechanical advantage. But they still needed to exert 15,000 to 20,000 pounds of precision force.

Parker Hannifin's Fluidpower Group came up with the solution. Working closely with Malewicki and his people, Parker engineers designed an ingenious turnkey system of components that included cylinders, filtration systems, control valves, pumps, motors, hoses, fittings, and seals. The result? Robosaurus can adeptly scoop up a car, hold it firmly, and then crunch it in its jaws before tossing it to the ground.

"In essence, Parker's engineers became a part of our design team," says Malewicki. "They understood our mission in making Robosaurus an entertainment and engineering marvel. They realized our needs in terms of safety, reliability, appearance, and profitability. With creativity and dedication, they worked hard to make our dream work."

Parker does a good deal more than provide unique fluidpower systems for Robosaurus. The Company utilizes the same technologies that brought Robosaurus to life in a great many useful, productive applications–from factory automation and robotics, to aviation and marine applications, to farm and construction machinery of all kinds.

TRAVELING ROBOSAURUS



The type of partnership employed to develop Robosaurus is the driving force behind Parker Hannifin's worldwide pre-eminence in motion-control components and systems. With more than 800 product lines for hydraulic, pneumatic, and electromechanical applications in some 1,200 industrial and aerospace markets, Parker operates 200 manufacturing plants and administrative offices. In addition, the Company supports more than 4,500 distributors serving more than 258,000 customers in every corner of the world.

Numbers aside, however, it's the meshing of customer service, technological expertise and creative problem-solving that makes Parker components and systems the first choice for a wide range of global customers–from aircraft to machine-tool manufacturers, including creative engineers like Doug Malewicki.

Some engineering challenges are real monsters

Innovative engineer Doug Malewicki envisioned a unique and challenging assignment. With Parker's cooperation, he created a monster – an electrohydromechanical monster named Robosaurus.

Robosaurus demolishes cars and thrills auto extravaganza crowds. He raises them 50 feet from the ground. He bites them in half, rips off their roofs, and crushes them in his monster-sized hands before hurling the mangled carcasses to the ground.

Getting this fire-breathing, fully-movable, car-crushing monster operational called for the contributions of eight Parker divisions.

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Williston Basin acres—this time at $5 an acre—to Amerada.

Impressed by the Williston deal, Rudman's father now asked the son to evaluate his oil deals for $15,000 a year. "I said I'd do it for free if he'd come visit me every two weeks," says Rudman. "He walked out." The elder Rudman died a year later of a heart attack.

In his intense likes—women—and dislikes—smoking—as well as in his inborn canniness, Rudman is a throwback to the era earlier in this century when H.L. Hunt, John Mecom and other Texas wildcatters punched holes where no one else thought there was oil. The oil bust has crimped the ambition of many independent oilmen. They focus now on drilling low-risk, low-potential wells. But Rudman is still proud to be a gambler. "I wouldn't buy a proven deal if it was a dead-gut cinch. I like 50- to 100-to-1 shots," he says.

But if he's a gambler, Rudman is a disciplined gambler. He rarely takes more than 25% of any particular well. "He won't allow himself to fall in love with a deal," says John Aubrey, president of Houston-based oil prospector Tepco Inc. He makes his picks in tandem with his geologist of 32 years, James Trimble. Together they evaluate some 1,100 drilling prospects a year, from which they pick the 40 or 50 they think show the best risk/reward profiles.

They choose well. Rudman's gambles succeed more than 1 time in 4—a high score for risky wells where the usual success ratio is 1 in 15. With no debt, low costs and his high success ratio, Rudman can make good money even at today's low oil and gas prices.

Rudman tends to work with partners—notably Tepco and Paramount Petroleum—that have proved themselves as oil finders. He has no trouble coming up with his share of the financing. Thanks to some almost uncannily smart timing, he is highly liquid.

Here's how he became so liquid. In 1980, near the peak of the last oil boom, he visited Europe and the Middle East and found that crude-sellers were slipping extra oil under the table rather than lowering their nominal $36-a-barrel price. With that evidence that oil was becoming a buyer's market, he returned home and sold almost all the reserves he had accumulated. They brought in $157 million. Those same reserves would fetch maybe one-third of that today. The buyer, Petro-Lewis Corp., nearly went bankrupt and was bought by another company.

From the proceeds, Rudman paid $41 million in taxes and socked the rest into Treasury bills. He finances his new drilling ventures entirely with the cash income from his Treasurys and from present oil and gas production. Thus if all the deals were to go bad in one year, he still would have his principal; only a year's interest is gone. Since 1981 Rudman has accumulated as much oil and gas as he sold in 1981.

Rudman's Williston Basin acreage made him seriously wealthy in 1951 when what is now Amerada Hess drilled the discovery well that opened a huge hydrocarbon basin. "It took me out of the jerk class," he says.

Perhaps because he was scarred by his father's attitude, Rudman is more generous with his own son. Wolfe Rudman shares with three other executives 20% of the firm's profits. (Another son, Michael, has wandered far from oil territory; he works as a theatrical director in London.)

For an elderly man worth nearly a quarter of a billion dollars, Rudman has few extravagances beyond his wardrobe, a chauffeured Lincoln limousine and the three months he spends abroad each year.

With his wife of 56 years, Josephine, Rudman still lives in that house that the bank threatened to foreclose on 40 years ago. He keeps a strict regimen of calisthenics, aerobic exercise and macrobiotic diet; Rudman is still vigorous. His mother died two years ago at age 101. "I'm going to live to 120," he vows with a wink, "and get shot by a jealous husband." One place he'll never find himself is in bankruptcy court. ■

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If parts of your backyard are a bit soggy after a heavy rain, watch out! According to current EPA regulations, it's wetland and you better not disturb it.

The strange case of the glancing geese

By Warren Brookes

IN EARLY AUGUST, amidst outcries from professional environmentalists, the Bush Administration moved to lift some of the more onerous property restrictions imposed by its own Environmental Protection Agency. Earlier, on June 12, property rights won another victory. After hours of acrimonious debate, the Senate voted 55 to 44 to tack on a very powerful amendment to a highway funding bill. Called the Private Property Rights Act, the amendment seeks to restore some of the sanctity of private property that has eroded in recent years in the U.S.

If the amendment passes in the House of Representatives as well, it will require the government to be a little less cavalier with its environmental regulations. When the authorities issue rules that damage property values, they must at least consider treating the rules as a "taking" under the Constitution. If a taking there is, the property owner would be compensated—just as he would be if the government took his land outright.

The conflict between private property rights and governmental power goes back a long way—as evidenced by the attention that the founding fathers paid to it. The writers of the Constitution declared in the Fifth Amendment that "private property [shall not] be taken for public use without just compensation."

For the first century this limitation on governmental power was the law, it wasn't the subject of much debate. If the government needed land for a garrison or a prison, it might compel an owner to sell, but the owner got paid. The only issue was how much.

Peggy Reigle of the Fairness to Land Owners Committee
"We will not accept government taking our land without just compensation."

Then, beginning around the turn of the century, battles over land-use controls landed in court. A landowner might be prohibited from putting up a slaughterhouse where he wanted, lest the smells and noise and blood offend neighbors and lessen their property values. Was such a restriction a taking of private property? In most cases, the courts said no. Your right to go into the fat-rendering business or erect a 20-story apartment building clashes with my right to clean air or sunlight. And so a zoning law that decrees where factories or tall buildings can go doesn't amount to a confiscation of private property, even though it might make some property owners poorer. If there was an erosion of property rights, few people objected. The restrictions were sensible and hardly onerous.

So it went in the courts—zoning laws were almost always upheld. But governments can go only so far with their restrictions, and California crossed the line. In a 1987 Supreme Court case, Nollan v. California Coastal Zone Commission, the Court ruled that the state's attempt to condition a building permit on a property owner's granting of access to a public beach was a taking and required compensation. It was a turning point for a court system that had for a long time been much more protective of political liberties than of property rights. The justices said, in effect: If California wants more public beaches, it should buy the land it needs, not just take it.

The ancient controversy has taken a dramatic new turn with the rise of environmentalism in recent years. With wetlands rules and endangered species protection, the federal government is in the business of land-use control. So the old question again arises: When does regulation amount to confiscation? If your waterfront parcel is ecologically precious, can the government simply declare it unbuildable? Or must it appropriate the money to buy you out? If the government wants to preserve a species of owl, can it tell an owner of timberland that he can't touch the trees he owns? Or must it buy him out?

The Senate bill requires federal agencies to assess the regulations a second time before regulating a property to the point of uselessness. There is nothing antienvironmental in the bill. It puts no limits on environmental protection measures. But it does impose a cost. It would simply require the government to compensate property owners for a significant loss they incur from environmental restrictions imposed upon their property.

Consider what happened in 1988 in Riverside County, Calif. The U.S. Fish & Wildlife Service declared the Stephen's kangaroo rat an endangered species. The result: Riverside County and local cities set aside 80,000 acres as wildlife preserves. Where the money would come from was not the Fish & Wildlife Service's problem. As then FWS Field Supervisor Nancy Kaufman told the *Washington Post*, "I'm not required by law to analyze the housing price aspect for the average Californian." If her enforcement helped deprive lower-income people of housing, that was no concern of hers. A local government agency financed the preserves with a fee of $1,950 imposed on every acre developed in the county. Up went the price of housing.

But under the new Private Property Rights Act, bureaucrats like Kaufman will have to consider the cost. The proposed law codifies an executive order issued in 1988 by President Reagan. This order required every federal agency to assess in advance the

Dry county
84,000 acres of wetlands.

Wet county
The swamps grew to 259,000 acres.

impact of any regulation or sanction on property values, to determine whether that impact constitutes a taking under law, and to seek to avoid such impacts. The potential for substantial monetary impact was borne out by a series of recent court decisions. In the U.S. Claims Court in 1990 and 1991, Judge Loren Smith awarded $64 million plus interest to property owners injured by such environmental sanctions.

The Senate bill has some professional environmentalists up in arms. If each of their efforts to protect "biodiversity" carries a price tag, the terms of the debate shift in ways they do not like. It will no longer be: Should we protect the spotted owl? It becomes: How much are we willing to spend to protect the spotted owl?

A setback for the environment? Not at all. If the Private Property Rights Act passes the House of Representatives, people will continue to look to the government to protect the environment. However, the bill will serve notice on the extreme environmentalists that Americans are not willing to give them a license to ignore property rights in the guise of protecting biodiversity.

When the final Senate vote was tallied, the environmental groups and their numerous representatives on the staffs of U.S. senators were lined up at the back of the Senate Chamber, visibly stunned at the suddenness and magnitude of their defeat. It was a complete reversal in just nine months of the defeat—by nine votes—of a similar provision.

It was a bitter pill for Senate Majority Leader George Mitchell (D–Me.), who wound up the debate with an impassioned cry that this bill, like Reagan's executive order, sought "to undermine regulatory protection by chilling agency action." But his motion to table the bill was shot down by 17 Democrats who teamed with 38 Republicans to hand environmental extremists the biggest legislative defeat in their history. The fact that 17 Democrats *did* vote for the Private Property Rights Act may demonstrate the rising political backlash against the extremes of the green lobby.

Ironically, this setback had its roots in what had looked like a major victory for the greens. In 1988 presidential candidate George Bush pledged "no net loss in wetlands." But on taking office, Bush faced the consequences of his statement. When the government enlarged the definition of "wetlands," Bush met angry protest from traditional Republican constituencies, farmers, businesses, real estate developers, landowners and local governments.

What caused the backlash was not the statement itself but an act of bureaucratic high-handedness apparently encouraged by Bush's pledge. This took the form of the 1989 *Federal Manual for Identifying and Delineating Jurisdictional Wetlands,* which extended federal jurisdiction over some 100 million additional acres of property, most of it privately owned. What outraged so many people was that most of the newly restricted land had only the remotest connection with water.

Why did the bureaucracy get so out of hand? When President Bush appointed William Reilly to head the Environmental Protection Agency, Bush confirmed the Washington adage that "personnel is policy." He had selected one of the most committed land-use planners in the environmental movement.

No question, there was and is a real need to arrest the long-term trend of draining and filling wetlands, marshes, bogs, swamps and lowlanc for conversion to active farming an commercial and residential develop ment. The EPA claims this has de stroyed over half of all U.S. wet lands—or more than 100 millio acres. But how to protect the wet lands? Reilly gave his answer long age As executive director of Laurance Rockefeller's Task Force on Land Us and Urban Growth, he helped writ *The Use of Land: A Citizens' Polic Guide to Urban Growth.* It laid ou many of the premises for using biological diversity as a rationale for limiting the two bêtes noires of environmentalism: single-family housing expansion and commercial agriculture It noted that land use could be restricted at no cost to the government through jurisdictional control.

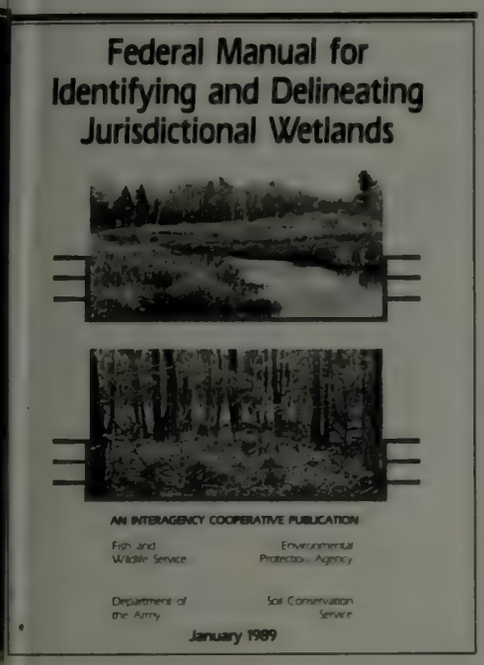
EPA chief William Reilly

"Loss in land value is no justification for invalidating regulation of land use."

Reilly's appointment as EPA administrator coincided with the early 1989 release of the new manual, which, in attempting to define "wetlands," extended the reach of the 1972 Clean Water Act. That manual asserted "jurisdiction" (requiring federal permits) well beyond traditional marshes and bogs. It extended it to cover *any* land with "hydric soils" or "hydrophytic vegetation." In plain English that is land showing evidence of periodic saturation or containing plants such as cattails, that are characteristic of wetlands. A third criterion defined

s "wetland" land where there is even hint of water down to 18 inches *below* the ground for seven consecutive days of the growing season. Under the August proposal, some of those criteria were softened. Most important, the length of time a wetland must be saturated would be increased to 21 consecutive days of the growing season.

One of the areas hardest hit by the 1989 rules was Maryland's Dorchester County *(see map, p. 105)*. Previously some 275,000 acres of privately owned land in Maryland had been classified as wetland. With the 1989 manual, the figure topped 1 million acres. This meant that the government suddenly sanctioned 740,000 additional acres against filling or other disturbance, unless specifically permitted by the Army Corps of Engineers, with the EPA and FWS exercising virtual veto power. Under the new proposal, the amount of wetlands would still increase, but by less than the 740,000 acres. The 1989 manual, however, remains the law of the land. The revisions would be unlikely to go into effect before early 1992. The permitting process itself remains a bureaucratic swamp.



The 1989 manual
Bureaucratic swamp?

This outraged Margaret Ann Reigle, who had retired from her job as vice president of finance at New York's *Daily News*. With her husband, C. Charles Jowaiszas, a retired Columbia Pictures vice president, Peggy Reigle moved to Cambridge, in Dorchester County, to raise flowers and enjoy life. As a retirement investment the couple had bought a 138-acre abandoned farm that they planned to subdivide into 10-acre lots. Within months, however, Reigle was out of retirement and at war with the federal government.

Reigle's war started after she heard what the new definitions had done to an elderly neighbor. The neighbor had been informed that under the new rules, her property was classified as nontidal wetlands and therefore could not be developed. The neighbor had been counting on proceeds from land sales to build a new home.

In May 1990 Peggy Reigle wrote an angry letter to President Bush (one of thousands like it received by the White House). When local papers reprinted the letter, Reigle was besieged by calls from others like her, outraged by the new policy. She formed the Fairness to Land Owners Committee; in two weeks it signed up some 2,000 citizens and now boasts a membership of over 6,000 Marylanders and 2,500 from other states. Its credo: "We will not accept the government's taking our land without just compensation." The grass-roots backlash against federal wetlands imperialism was under way. And soon Congress was paying heed.

In January and February Representative John LaFalce (D–N.Y.), chairman of the House Small Business Committee, held hearings. Builders, realtors, national and local officials and developers shared stories about the quagmire of wetlands regulations. The town supervisor of Wheatfield, in Niagara County, N.Y., told LaFalce that if the Corps issued permits based on the 1989 manual, "areas like Niagara County will be deprived of approximately 65% of the remaining developmental property." David Brody, attorney for the Niagara Frontier Builders Association, said the manual's implementation, along with other problems, would result in "a 35% reduction in new home starts in Niagara and Erie counties in 1991." After the hearings LaFalce sent President Bush a letter "to alert [him] to the regulatory travesty currently masquerading as federal wetlands policy."

In Hampton, Va., meanwhile, Thomas Nelson Community College had made a routine request for a Corps check of a proposed 40-acre site for its new sports complex. The result was a finding of 'hydric soils" and "wetlands" at the college. Similar findings could, in a cascade of regulatory mayhem, threaten the 38-acre Nelson Farms subdivision, the 800-home, 133-acre Michael's Woods subdivision, the 300-acre Hampton Roads Center office park, and a 600-home Hampton Woods subdivision. As Hampton Mayor James Eason told the local *Daily Press*, "It's very scary. It's conceivable it could halt all development in the city of Hampton."

This quagmire trapped even some of the most obvious candidates for permits, such as Richard Adamski. This retired state trooper from Baltimore had invested $16,500 in a building lot in the midst of a developed residential area in a hamlet in Dorchester County only to be told the 0.7-acre lot was "nontidal wetlands." Although he wanted to fill only an eighth of an acre to build a retirement home, the U.S. Fish & Wildlife Service recommended denial of his application.

Eventually the Corps did issue a permit to fill the sliver of land, but only if "the permittee shall mitigate at a 2:1 ratio for wetlands losses by constructing 0.25 acres of wooded nontidal wetlands." In other words, Adamski had to find someone willing to sell him a permanent "easement" on twice as much land. No takers yet; Adamski remains in limbo. Yet when I walked through the wettest of these mostly wooded "wetlands" last April (the wettest season), my dress shoes emerged pristinely unmuddied.

As the outrage over his high-handed policies mounted, Reilly had to beat a strategic retreat. On Mar. 7 he admitted to the prestigious American Farmland Trust: "We suddenly found ourselves in the center of a maelstrom. Everywhere I traveled I heard a local wetlands horror story—not just from farmers, but from developers and respected political leaders." He suggested that the entire process had gotten out of hand.

But tell that to William Ellen, a successful and respected Virginia marine engineer who is now appealing a prison term and a large fine for having "filled" more than 15 acres of Eastern Shore "nontidal wetlands" when he bulldozed these seemingly dry and forested acres to create large nesting ponds for ducks and geese as well as a management complex.

Ellen was working on a project for Paul Tudor Jones II, the high-flying futures trader *(see p. 184)* who in August 1987 had bought 3,200 acres in Dorchester County, very close to the Blackwater Wildlife Refuge. Jones' idea was to create a combination hunting and conservation preserve as well as a showplace estate. The centerpiece of the project is a 103-acre wildlife sanctuary developed with the assistance of the Maryland Department of Natural Resources. This sanctuary includes ponds, shrub swamps, food plants and grassland plots all designed to attract geese, ducks and other migrating waterfowl.

In May 1990 Jones suddenly pleaded guilty to one misdemeanor related to negligent filling of wetlands, agreeing to pay $1 million to the National Fish & Wildlife Foundation to help the Blackwater Refuge, plus a $1 million fine. The plea allowed Jones to avoid a costly and debilitating trial, and possibly even a jail term and the loss of his trading license. However, no such deal was afforded Bill Ellen, himself a well-known conservationist who, with his wife, runs a rescue/rehab mission for injured wildlife and waterfowl.

How could Ellen be prosecuted for converting land that was so dry water-spraying had to be used as a dust suppressant during bulldozing into large nesting ponds for waterfowl? That question disturbed trial judge Frederic Smalkin at the U.S. District Court in Baltimore, and the answer he got was bizarre.

Prosecution witness Charles Rhodes, one of the EPA's top scientists on wetlands, said that even though the forested "wetlands" had been replaced by new ponds, the ecology was supposedly worse off.

Why? The problem was bird shit. "The sanctuary pond is designed to have a large concentration of waterfowl, and before the restoration plan was implemented, all that fecal material [from the ducks and geese] was geared to be discharged right into the wetlands, whereas now it is actually designed to go through like a treatment system through the wetlands. So that would have been a negative impact, a water quality impact." In other words, the bird droppings, instead of staying in one place, would be spread over a wider area.

Conservationist Bill Ellen

Guilty as charged: too many goose droppings.

To which Judge Smalkin responded incredulously: "Are you saying that there is pollution from ducks, from having waterfowl on a pond, that that pollutes the water?" Incredibly, a jury convicted Ellen on five counts of filling wetlands. But U.S. Attorney Breckinridge Willcox said Ellen's conviction sends "a clear message that environmental criminals will, in fact, go to jail." The prosecution asked the court for a prison term of 27 to 33 months, but Judge Smalkin sentenced Bill Ellen to six months in jail and four months of home detention.

These examples of federal wetlands policy as practiced in the early years of the Bush Administration are a case of a bureaucracy run amok. In fact, there is little law today that provides due-process federal jurisdiction over wetlands. There is only the Food Security Act of 1985, which asserts jurisdiction over those farmlands under federal subsidy programs. But farmers may remove that jurisdiction by taking their land out of the programs.

Otherwise, the wetlands program is very largely a contrivance of federal bureaucrats, sometimes working with friendly courts to expand Section 404 of the Clean Water Act. Yet this act makes no mention of "wetlands" and is designed to regulate only direct

Bettmann Archive

dumping into and pollution of the nation's "navigable waters," rivers, harbors, canals, etc.

In a 1975 decision (Natural Resources Defense Council v. Callaway), a Washington, D.C. district judge ruled that federal jurisdiction applied beyond navigable waters to any wetlands that might remotely feed into such rivers and harbors. But even that did not cover "isolated wetlands" with no connection to "navigable waters"—like the puddles in your backyard after a heavy rain. Nevertheless, since 1975, jurisdiction has been expanded entirely by fiat and court interpretation to cover that definition in the EPA manual—water 18 inches down.

The fig leaf for this judicial and executive imperialism is Article 1, Section 8, paragraph 3, of the Constitution, which gives Congress the right "to regulate commerce . . . among the several states." To assert this power on isolated and local wetlands, the EPA and the Army Corps of Engineers engaged in such creative flights of fancy as declaring ducks and geese "interstate waterfowl." This led to what some call the "glancing goose test," which determines that an area is a wetland if an interstate goose pauses to consider it.

In a brutal display of naked power, the EPA and the Department of the Army plunged ahead in December in their "Wetlands Enforcement Initiative," designed to bring 24 high-visibility defendants like Paul Tudor Jones to justice. The Dec. 12, 1990 memorandum asked all regional administrators to produce a "cluster" of new cases to be announced in an April "first 'wave' of publicity . . . to provide an early deterrent to potential violations which might otherwise occur during the 1991 spring and summer construction season."

But on Apr. 19 a high-visibility case blew up in the government's face. James Allen and Mary Ann Moseley, Missouri farmers, had built a perimeter levee to keep their Mississippi Basin farm from flooding. The government declared the area to be wetlands of the United States, sued the Moseleys for violations of the Clean Water Act and sought fines of $25,000 a day for as long as the violation was in effect.

But the Moseleys are members of the American Agriculture Movement, a progressive farm organization that has joined the mainstream farm groups in opposing the extension of the definition of "wetlands" and supporting the Private Property Rights Act. AAM's Fayetteville, Ark. lawyer, John Arens, has a record of beating the government in court—and he did it again.

When Arens was not allowed to bring in his own "expert witnesses," he minced up the government "experts" by demonstrating the capricious nature of the so-called wetlands law. He asked one EPA expert if it were not true that, were he to play baseball on a diamond built on hydric soils and went into the batter's box and scuffed his cleats, and then knocked the resulting dirt off them, back onto the field, he would be in technical violation of the Clean Water Act?

"When he [the so-called expert] was forced to answer yes, I looked at the jury and I knew we were on our way!" Arens said. "But what really convinced the jury the government had no case was when it discovered that the government prosecutors had no law!"

"While the jury was deliberating, they kept sending out to the judge for copies of the 'wetlands law.' When the judge sent them federal regulations, they sent back and asked for the law. When the judge sent them the Clean Water Act, and said this was all the law he had to give them, they [the jury] decided the government had no case because it had no jurisdiction."

More setbacks awaited the power-grabbing bureaucrats. In January 1989 then Assistant U.S. Attorney General Stephen Markman had a memorandum prepared on a big wetlands case the Justice Department was prosecuting. The memorandum demonstrated, with dozens of citations, the flimsiness of the government's wetlands policies, concluding: "The Corps and the EPA appear to have circumvented the Constitution's requirements . . . and the federal district and circuit courts have not corrected them." The courts have apparently been paying attention.

And so the battle has been joined. On the one hand are the wildlife-at-any-price people. On the other, people who think that environmental policy ought not override property rights.

The environmental extremists have made their intentions clear. In 1975 poet Gary Snyder won the Pulitzer Prize for his radical call for an "ultimate democracy [in which] plants and animals are also people." He wrote that they should "be given a place and a voice in the political discussions of the humans. . . . What we must find a way to do . . . is incorporate the other people . . . into the councils of government."

A few years later, in 1980, a leading ecologist, Joseph Petulla, said, "The Marine Mammal Protection Act [and] the Endangered Species Act [embody] the legal idea that a listed nonhuman resident of the U.S. is guaranteed, in a special sense, life and liberty."

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Road-widening project on Johnny Mercer Boulevard near Savannah, Ga.
The highway crew had to fill 4.2 acres of wetlands. In "mitigation" of the damage, the federal government demanded that Georgia dig up a pristine forest nearby and turn it into a swamp.

Of course, the Constitution says nothing about the rights of trees, snakes, owls and fish. Which may be why, back in 1973, Reilly's task force essentially called for the repeal of the takings clause of the Fifth Amendment: "Many [judicial] precedents are anachronistic now that land is coming to be regarded as a basic natural resource to be protected and conserved. . . . It is time that the U.S. Supreme Court re-examine its precedents that seem to require a balancing of public benefit against land value loss . . . and declare that, when the protection of natural, cultural or aesthetic resources or the assurance of orderly development are involved, a *mere loss in land value is no justification for invalidating the regulation of land use* [italics added]."

"A mere loss in land value . . . " In that "mere" resides a philosophy that questions the values of private property and individual freedom. But after years of having things pretty much their own way, people who think like Reilly are getting a real fight.

Idaho Republican Steve Symms, who leads the fight in the Senate for the protection of property rights, says: "We should adopt a policy of no net loss of private property." Since the federal government already owns some 40% of U.S. land, Symms argues that it ought to be willing to swap some of its 730 million acres in order to obtain privately owned land that is environmentally sensitive. If, say, the National Park Service wants 50,000 acres to provide more protection for Shenandoah National Park, it can ask the Forest Service or Bureau of Land Management to sell to private citizens a like amount to finance the acquisition. Such a policy of no net gain in federal lands was introduced this summer in the House in legislation drafted by Representative Bill Brewster, Democrat from Oklahoma.

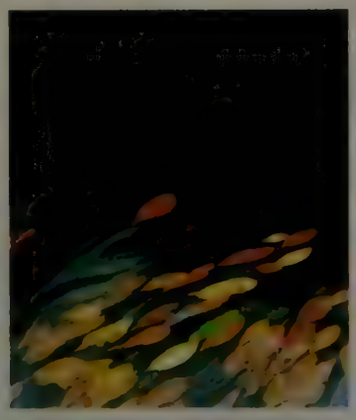
Do we really want the federal government owning even more of the country, whether through outright purchase or through limitations on land use? Free-market environmentalists like R.J. Smith of the Cato Institute argue that more government ownership and control would actually harm the environment. He says: "Ecological devastation . . . invariably accompanies too much government ownership of land. You don't have to look just to Eastern Europe for confirmation. You need only examine the condition of most of the Bureau of Land Management inventory of properties, or remember what the Park Service allowed to happen at Yellowstone."

But the zealots won't give up. On Oct. 1 the EPA's regional office in Chicago awarded a grant of $50,000 over three years to the Sierra Club's local "Swamp Squad," which amounts to an unofficial policing of the environment. These vigilantes spy on developers and other land and property owners to report potential wetland violations. The EPA press release quoted Dale Bryson, the regional director of its water division: "This grant will allow them to continue their valuable work in a more vigorous way."

The Senate has served notice that it thinks some of this "valuable work" has already gone too far. By all the evidence, many of the American people would agree.

Profile of a Responsible Global Corporation

"As technology advances, it is erasing traditional barriers between historically independent industries."



Canon

"Task forces are formed voluntarily among staff members with innovative ideas, and management makes sure such initiatives are backed financially."

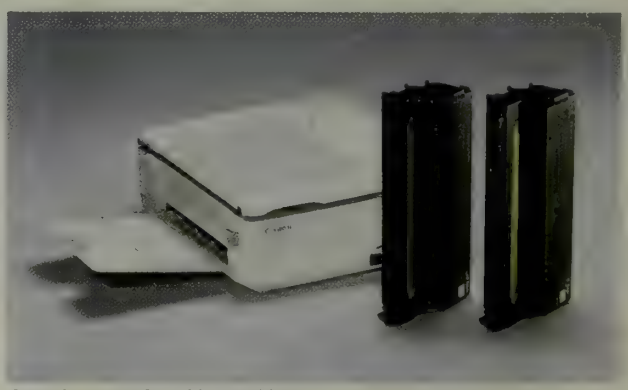
Lasting Commitment to Technology

"My congratulations to the people of Canon for their vision and commitment to the environment..."

Speaking before Prime Minister Brian Mulroney and other members of the Canadian Parliament during a debate on environmental issues on March 7 this year, a Canadian MP was paying tribute to Canon's commitment to the environment.

"Too often," the MP continued, "industry gets a bad rap for being the polluters of our environment. It is time to take another look because industry is proving that technology and the environment can operate in harmony."

Bob Horner, MP, was referring to Canon's worldwide "Clean Earth Campaign," recently launched in North America to collect toner cartridges for recycling and alleviate landfill problems. The cartridges collected would be shipped to Dalian, China, where Canon operates a new cartridge recycling plant.



Canon's user-replaceable cartridges

"This is a significant initiative, but Canon's commitment does not stop there," observed Bob Horner, elaborating that Canon USA would donate $1 for each cartridge collected to environmental agencies. An estimated 10 million cartridges will be eligible for recycling in North America this year, including 1.4 million in Canada.

The compliment from Bob Horner was good news to the 54,000 men and women who make up the Canon group around the world. Especially pleased was Keizo Yamaji, President of Canon Inc. "We were pleasantly surprised to receive such positive reaction from overseas so soon," says Yamaji. "It makes us very proud to see our corporate campaign attract such favorable comments. It motivates us to work even harder to achieve harmony with the environment through ecology-related technologies."

Known primarily for advanced technologies related to cameras, precision optical equipment and business machines, Canon has recently announced an increased commitment to environmental protection, pledging to make "harmony with the environment" a major corporate objective.

Already, Canon is carrying out an ongoing campaign to completely phase out chlorofluorocarbons (CFCs) from the company's manufacturing process by 1994.

As part of its ecology-related R&D effort, Canon, with an R&D staff numbering over 5,000 in Japan alone (27% of the employees of Canon Inc.), is also currently working on the development of clean energy sources such as solar cells. Toward that end, Canon has set up in the Kansai region in western Japan a new R&D center specifically for solar cell development using amorphous silicon technology for copiers.

"Harmony with the environment" comes from Canon's corporate philosophy of *kyosei*, or mutually rewarding coexistence, advanced by Canon Chairman Ryuzaburo Kaku. Since the early 1970s, Kaku has steadfastly maintained that no corporation can hope to prosper on its own in our increasingly borderless world, and that every corporation has a responsibility to contribute to the welfare of its host community and society at large.

"As a responsible global corporation," says President Yamaji, "Canon must take the lead in the development of technologies that enable people to live harmoniously with the environment—which is *kyosei* with the earth."

The development of the solar cell is one of Canon's major projects

or over half a century, Canon has consistently pursued chnological excellence, vigorously investing in research nd development. Today, thanks in large measure to its eep commitment to R&D, Canon is an indisputable leader in the manufacture of high-quality cameras, precision optical products and sophisticated office automation equipment.

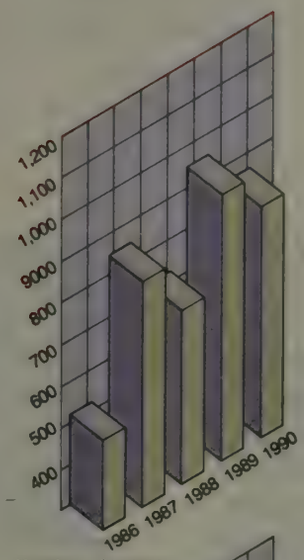
Dr. Hajime Mitarai
Senior Managing and Representative Director

Attesting to its dynamic R&D program, for the past several years Canon has consistently been among the top three corporations with the argest number of patents registered in the U.S.

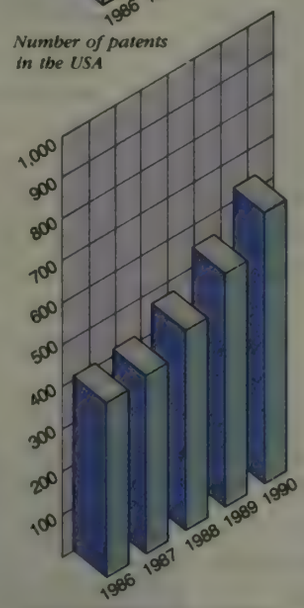
"Canon has a very firm commitment to R&D," ays Dr. Hajime Mitarai, Senior Managing and Representa- ive Director of Canon Inc. Dr. Mitarai is in charge of Canon's research and development activities. "I also elieve Canon is far more open than most Japanese ompanies. Management consistently encourages a free low of ideas among staff. Task forces are formed oluntarily among staff members with innovative ideas, nd management makes sure initiatives are backed inancially," he says.

Dr. Mitarai, who has a Ph.D. in electrical engineering and was educated at MIT and Stanford, joined Canon in 1974 as the company was beginning to incorporate electronic engineering know-how into its camera-making technology. Dr. Mitarai believes that Canon's fine R&D tradition has helped the company achieve the superior technological standard underpinning its success. Canon invested $637 million in R&D, approximately 5.0% of Canon's consolidated sales, in 1990, and has pledged to make ever bigger investments in its R&D programs.

Canon's Central Research Center



Number of patents in the USA



R&D expenditure (US$ millions)

Canon's strong commitment to technology manifested itself as early as the late 1960s, when the company set up its own research center. It was a bold step for a firm that was grossing no more than $2.8 million a year. At that time, no other Japanese camera manufacturer had its own in-house research facility.

Since its establishment, Canon's Central Research Center has developed excellent electrophotography technologies that have made possible the company's diversification into business machines. "We tried everything from A to Z," notes Dr. Mitarai. "Eventually, however, copier-related ideas worked very well, and business machines are our bread and butter today."

Dr. Mitarai is also in charge of Canon's Optical Products Operations. Canon started business with optical products, followed by equipment for semiconductor manufacture and lenses for television cameras and medical equipment. In the field of semiconductor manufacturing equipment, Canon produces machines known as steppers which print circuit patterns onto silicon wafers to make integrated-circuit chips. As one of the world's leading suppliers of semiconductor manufacturing equipment, Canon is continuing research into stepper technology, and paving the way to commercial production of the next generation of 64-M DRAM chips.

According to Dr. Mitarai, morale at the Central Research Center is extremely high. "Effective communication leads to sophisticated technology, which shoud continue to be the foundation of Canon's growth through diversification," he says. "Canon has had many ups and downs, and it was always our excellent technology that enabled us to bounce back."

The Canon Stepper FPA-2000i1

Canon's TV zoom lens

"When developing a product,
we make sure three basic requisites are
met—that the idea is original,
the hardware solid,
and the software excellent."

A Success Story for Our Time

'Luck is a very important factor in business and our case has been no exception," observes Hiroshi Tanaka, Senior Managing and Representative Director of Canon Inc. Tanaka is in charge of Canon's Business Machines Operations and is credited, together with President Yamaji, with having directed Canon's successful diversification into business machines centered on copiers.

Hiroshi Tanaka
Senior Managing and Representative Director

"In hindsight," Tanaka recollects, "it was fortunate that during those days when we started working on copiers, Xerox was the only copier maker in the world and held some 500 patents, refusing others access to their closely guarded know-how. So we simply had to come up with our own original technology. This made us work doubly hard. I am not sure we could have made it were it not for that seemingly insurmountable barrier. In retrospect, we were very fortunate to have had to face such an enormous challenge."

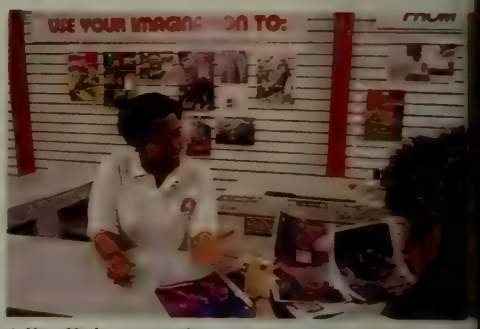
Canon developed the NP process for plain-paper copying as an alternative to xerography in 1968. Since then, it has continued to advance copying technology with a steady stream of innovative ideas that has expanded the copier market and set industry standards.

NP17a, one of Canon's first NP copiers

The Color Laser Copier (CLC) set new standards for quality full-color, plain-paper copying when it was launched in 1987. It was also Canon that first created the market for personal copiers (PCs) when it developed the user-replaceable cartridge concept. Canon's ongoing R&D work on solar cells is based on amorphous silicon technology developed for copiers.

A current high-end NP9800 copier

Canon is one of the world's largest copier manufacturers today. Sales for copiers accounted for over 40% of the company's consolidated global sales in 1990.



A New York copying shop equipped with a Color Laser Copier

Inspection of amorphous silicon

Canon had another stroke of good luck in 1975 when it unveiled its first Laser Beam Printers (LBPs) at the U.S. National Computer Conference in Anaheim, California. By coincidence, IBM also introduced its laser beam printers, the result of nearly ten years of research and development, at the conference. Both models create a great sensation. The only difference was that, while IBM's were normal-sized printers developed for regular computers, Canon's were

Canon's first Laser Beam Printer, LBP-2000/LBP-CI

The Laser Beam Printer—powerful output for DTP (desktop publishing)

artridge testing at Canon Dalian Business Machines, Inc.

ompact, having been designed for small computers, which at the time ere considered mere "toys."

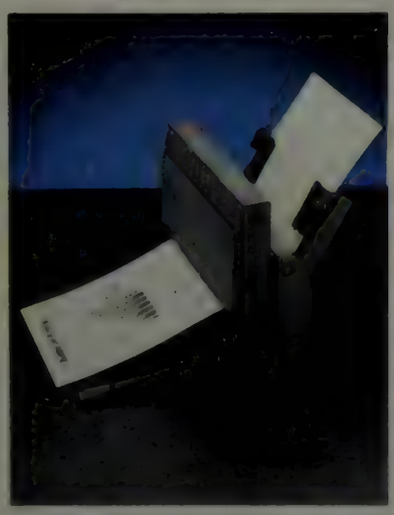
Canon was lucky with its LBPs on two counts: First, the LBPs tracted considerable attention because they were introduced simultaneously ith IBM's, and secondly, a personal computer boom occurred soon fter their introduction, dramatically stimulating the demand for ompatible, noiseless printers.

Today, Canon accounts for approximately 80% of the world market for BPs for use with personal computers. LBPs are now Canon's best-elling products, just as its Canonet and AE-1 cameras were before.

"When developing a product," observes Tanaka, "we make sure three asic requisites are met—that the idea is original, the hardware solid, nd the software excellent. We then pay attention to five marketing rinciples—that the product is the first of its kind on the market, has utstanding quality, meets market needs, is reasonably priced, and is rotected by a patent."

As has been demonstrated by the ompany's success with LBPs, anon's diversification program s well on its way, thanks to a firm oundation of sophisticated R&D. anaka, however, admits that Canon s still comparatively weak in the oftware field.

"Our sales in the world LBP market would be larger if we had een able to develop our own oftware," notes Tanaka. "But, of course," he adds with a smile, "a larger share wouldn't be necessary as it would definitely create a monopoly situation, which runs counter to our corporate philosophy of *kyosei* with our competitors."



BJ-10e (with Auto Sheet Feeder)

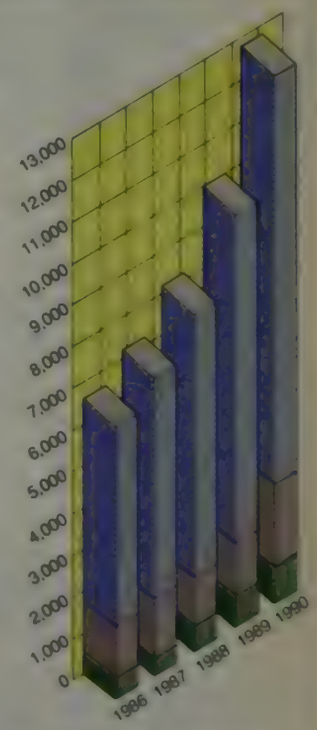
Canon's worldwide "Clean Earth Campaign," launched to collect printer and copier toner cartridges for recycling, is the brainchild of Tanaka, who was the very man who proposed the revolutionary replaceable cartridge in 1982.

As Canon was manufacturing some 10 million replaceable cartridges per year, and the number was sharply rising, Tanaka recommended to Chiarman Kaku and President Yamaji that the cartridges be recycled at a plant to be built in Dalian, China. Tanaka contended that recycling would not only contribute toward environmental efforts, but would also make a lot of economic sense as 90% of the plastic and aluminum components used would be recycled.

Kaku and Yamaji approved the idea on the spot. They were fully in favor of recycling and complimented Tanaka on the fine incentive he came up with to help push the campaign effectively.

Today, Canon's business machine operations, including electronic typewriters, facsimile machines and computer & information system products, continue at a vigorous pace. Among the notable new products are bubble-jet printers, which are an excellent alternative to dot-matrix machines. Fast, clean, compact, reasonably priced and remarkably quiet, Canon's bubble-jet printers incorporate a high-precision mechanism that utilizes heat to inject the ink onto the paper. Not only did Canon spearhead the development of the needed technology, but it also initiated the mass production technology for this precision machine.

Clearly, Canon's superior camera-making and optical technologies, backed by a dynamic sales system, have made possible the company's diversification into the field of business machines. Business machines now account for over 80% of Canon's consolidated yearly sales, which amounted to some $12.8 billion last year.



"Rather than exporting
Japanese-made Canon cameras,
we want to be in a position to offer people
Canon cameras manufactured
in their own countries."

The Outlook for the Future

Is Canon phasing out cameras now that business machines are its best-selling products and the company appears intent on further diversification?

"Absolutely not," says Kazuo Naito, Senior Managing and Representative Director in charge of Canon's Camera Operations since January 1989. "We aim to continue to provide easier-to-handle, reasonably priced cameras to both amateur and professional photographers, and our job is far from done."

Kazuo Naito
Senior Managing and Representative Director

When Naito took over his present position in the company, he was asked by Chairman Kaku to reactivate Canon's dwindling camera operations, whose revenues had dropped from over 50% of the company's annual total sales in 1980 to a mere 14% in 1988.

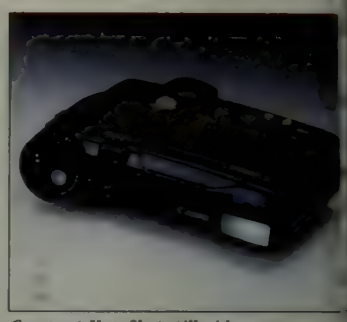
With Naito at the helm, Canon's camera operations have been more than reactivated, with earnings reaching some 18% of total sales and profits increasing more than 30% since 1989. Canon again leads Japan and the rest of the world in the sale of high-quality cameras.

Naito attributes the remarkable recovery of Canon's camera operations to improved communication among all staff members involved, including researchers, technicians and sales personnel. Naito explains: "Previously, our camera operations had no well-integrated communication system that would have enabled everyone to discuss pertinent matters and make intelligent production and marketing decisions together."

The introduction of the new communication systems has prompted everybody to make greater efforts to deal effectively with both existing and potential markets, and take personal initiative in ensuring that Canon continues to possess the capability to develop, manufacture and market products that meet current market needs.

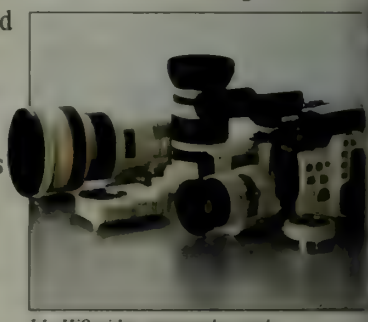
"We have no intention of dropping our camera business," continues Naito. "We see tremendous market potential around the world and are diversifying our camera line with such advanced products as 8mm video camcorders and our still video camera—the world's first—which is already on the market."

Naito takes a different view from the opinion held by some business analysts who contend that the world camera market is saturated. "What about the millions of people in China, Southeast Asia and Eastern Europe, whose standard of living is continually rising?" Naito asks. "Sooner or later, we can expect every family to want at least one camera." And though Canon has sold 60 million SLR and compact cameras around the world, Naito considers the figure small in comparison with the vast untapped market potential. "There are a billion people in China alone," he points out.



Compact Xap Shot still video camera

Naito is proud of his company's heritage of excellence in camera-making technology and image processing technologies. "Without such technologies, Canon would not have been able to produce copiers, laser beam printers, facsimile machines and other high-caliber business equipment," says Naito, adding: "I feel strongly that the world expects Canon to continue turning out a top-grade range of advanced, dependable cameras."



L1, Hi8 video camcorder and interchangeable lenses

Started in 1933 by a group of young Japanese entrepreneurs intent on creating Japan's first 35mm focal plane shutter camera, Canon has long been known for the outstanding performance and quality of its cameras. Canon introduced the Canonet in 1961 and the microcomputerized auto-exposure AE-1 in 1976, both of which revolutionized the industry. More than 4.5 million units of the AE-1 series were sold in the five years following their introduction on the market.

Canon's latest 35mm SLR cameras—the EOS Series—are another landmark in camera-making. Featuring a sophisticated autofocus system, the EOS Series was created with such innovations as the BASIS (Base Stored Image Sensor) which makes it possible to focus automatically with light from a single candle.

Naito emphasizes that even technologies developed for failed projects, such as the "Sincroreader," a machine that recorded and

eproduced data on magnetic-coated aper in the same way as a tape ecorder, and electronic calculators, ave in the end benefitted Canon. he electronics know-how obtained om such projects contributed to aking Canon the world's first anufacturer of microcomputerized ameras.

Canonet, Canon's first 35mm popular camera

With the introduction of the E-1, important functions like shutter speed, exposure and flash ecame controlled electronically. In designing the AE-1, Canon esigners eliminated as many echanical parts as possible, educed weight and incorporated icrocomputers. Additionally, the se of advanced engineering plastics ade the camera's design more exible and attractively streamlined. roduction costs were also ignificantly reduced.

AE-1, the world's first computerized SLR camera

Today, the electronics and engineering plastics technologies applied to Canon cameras are used by other anufacturers around the world, including watch and automobile makers.

With the ever-expanding world camera market in mind, Canon has recently been increasingly shifting its camera production to Asian countries such as Taiwan, Malaysia and soon China.

EOS, Canon's latest 35mm SLR camera series

"Rather than exporting Japanese-made Canon cameras, we want to be in a position to offer people Canon cameras manufactured in their own countries," says Naito. "That way, we will achieve our corporate aim of *kyosei* and accomplish our three goals of helping create jobs overseas, contributing to improvement of local standards of living, and transferring Canon technology to developing nations."

An assembly line at Canon Inc., Taiwan

"So many people around the world are still without a camera," Naito continues, "and our founder's dream of providing every one of them with a good camera is far from over. That's why Canon's camera business is here to stay."

Corporate Philosophy of Canon

Corporate Mission

Canon's corporate mission is to make a positive difference in the world through the means of continued growth.

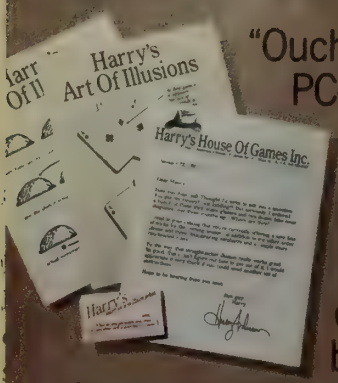
Corporate Objectives

We are responsible global citizens.
We will create the best and most unique products based on leading-edge technologies
We will contribute to continuing prosperity by building an ideal firm.

Corporate Values

We respect cultural differences among ourselves, our customers, and our communities
We believe that self-awareness, enthusiasm and responsible behavior are three keys to good results
We respect dignity, value initiative, and recognize the merit of each individual
As members of the Canon family of companies, we trust and respect each other and work together in a harmonious atmosphere
Above all, we sustain our physical and emotional health in order to lead full and happy lives.

Why the personal copier is such an important part of Harry Anderson's act.



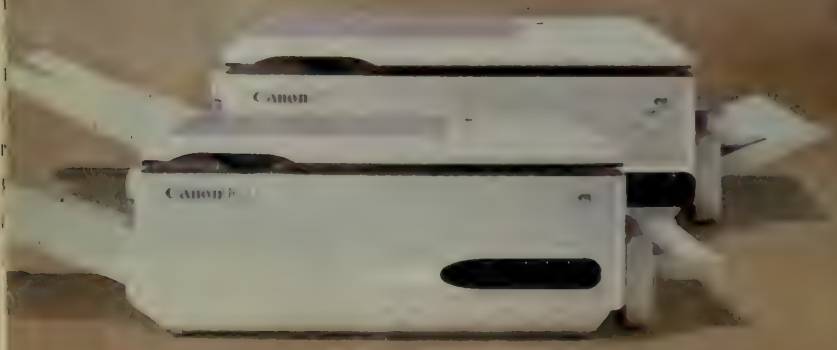
"Ouch! Before I got my Canon PC-1, my home office looked like the place where bills and paperwork went to die.

But now, bingo, I'm knocking out clean, crisp copies on everything from business cards to OHP transparencies, faster than a three-handed card dealer.

Since Canon PC Copiers don't need warm-up time, mine's ready to copy when I am. And there's no trick to working it because it's got that PC Mini-Cartridge system. Everything that can run out or wear out is right inside. Change it, and you darn near got yourself a new copier.

Whether you choose the PC-1, or the PC-2 with its 50-sheet stack feeder, a compact Canon personal copier can give you a hand, without costing an arm and a leg.

Wanna know more? Get on the horn and call 1-800-4321-HOP."



Canon PC-1/PC-2

PERSONAL COPIERS

Nothing but originals.

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an Francisco's politicians
eem determined to slaughter
ne geese that lay
ne city's golden eggs.

Self-destructive lunacy"

By John H. Taylor

IF THERE IS a father of modern San Francisco politics, it is surely Joshua Norton, who arrived in San Francisco in 1849. After losing his entire fortune in an attempt to corner the rice market, he went bonkers and declared himself Emperor of the United States and Protector of Mexico. For more than 20 years, local newspapers carried his imperial proclamations and merchants eagerly accepted his worthless scrip.

More than a century later, wacky economics still echo around San Francisco City Hall. At a time when the city and county (the two are consolidated) are rapidly running out of money and public expenditures have been rising at twice the rate of revenues, Mayor Art Agnos and the city's 11-member board of supervisors—its version of a city council—continue to hit the city's business community with a barrage of taxes, shortsighted legislative initiatives and the nation's most draconian building regulations.

Says Bill Maher, one of the more conservative members of the board of supervisors: "What you have [in San Francisco] is a mayor who believes that management is the way the powerful oppress the weak, an electorate of largely transient voters who believe capitalism is a crime and a board of supervisors who represent those beliefs. It's self-destructive lunacy."

To protect themselves, many of the city's largest employers—including Bank of America, Wells Fargo, Pacific Telesis and Chevron—have moved thousands of their employees out. Job growth has slowed to a crawl. The city added only 14,100 jobs in the last half of the 1980s, compared with 100,000 during the prior decade.

At the heart of the problem is the board of supervisors, a ragtag collection of soapbox orators and political hangers-on with little economic sense. Consider, for example, these enlightened maneuvers:

- In 1986 the board voted to stop buying gas from Chevron Corp., the largest company headquartered in San Francisco, because Chevron had a joint venture in South Africa. Chevron has since moved thousands of

Down and out in downtown San Francisco
After only three days' residency in the city, a homeless person gets $340 a month, which explains why adjacent cities routinely bus their indigents to San Francisco.

SOME COMPUTER COMPANIES SELL YOU OPEN SYSTEMS.

We've noticed recently that almost every computer manufacturer and software company is talking about one thing. Open systems.

Unfortunately, each of those companies has a different definition of open. To some it means UNIX®-based systems. To others it signifies compliance with standards. To many it merely suggests the ability to run off-the-shelf programs.

At Digital, we take a slightly different approach. We don't define open from a vendor's perspective. We define it from yours.

We start with the premise that an open system must be able to integrate products from a multitude of vendors. A feat that requires not only a strict adherence to industry standards, but the willingness and expertise to actually configure, implement and support a multi-vendor system. Whether that system is limited to a single department, or extends across an entire enterprise.

This conviction is best demonstrated by Network Application Support (NAS), a comprehensive implementation of standards that lets you integrate systems and applications from the likes of IBM®, Hewlett-Packard®, Sun®, Compaq®, Apple® and others.

With NAS you can run applications across a wide range of systems with minimal changes. You can get applications to share data and interoperate. And you can develop networked applications so that they're impervious to the differences between one computer maker and another.

It means you're finally free to configure a truly open

NAS FROM DIGITAL.

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ystem from any number of ompanies' products, able to uy and use the best solution or any given need.

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Sit down with Digital and you'll find that our people are just as open as our technology and services. Committed to understanding your business, your problems and your information requirements, even in those cases where the solution is best acquired from a company other than Digital.

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So if you're interested in open systems, talk to us soon. Because while other companies are able to sell you something approximating an open system, we're able to offer you something far more valuable than an open system. The Open Advantage.

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THE OPEN ADVANTAGE.

HEWLETT-PACKARD IS A REGISTERED TRADEMARK OF HEWLETT PACKARD COMPANY. SUN IS A REGISTERED TRADEMARK OF SUN MICROSYSTEMS, INC. COMPAQ IS A REGISTERED TRADEMARK OF COMPAQ COMPUTER CORPORATION. APPLE IS A REGISTERED TRADEMARK OF APPLE COMPUTER, INC.

John Hanlon

Reuters/Reitmann

ABOVE: Site of abandoned Wells Fargo office project
LEFT: Mayor Art Agnos
"What you have is . . . an electorate of largely transient voters who believe capitalism is a crime and a board of supervisors who represent those beliefs."

employees to the nearby suburbs.

■ Two days before last winter's Gulf war, the board of supervisors passed a resolution declaring San Francisco a haven for war resisters and conscientious objectors. The American Petroleum Institute promptly canceled two major conventions scheduled for San Francisco, depriving the city of more than $7 million in revenue. Other conventions are threatening to pull out as well.

■ On the heels of the war resisters resolution, several members of the board proposed a resolution declaring San Francisco a haven for the sexually oppressed. The group that pushed the resolution requested that the city post signs at all major freeways entering the city declaring it a "sanctuary for sexual minorities"—a bizarre proposal in a city whose major business is tourism. After a public outcry, the resolution was quietly scrapped.

San Francisco's commercial growth control measures, the most restrictive in the country, limit citywide construction to 750,000 square feet annually, roughly the size of a single 30-story building. Several years ago Wells Fargo wanted to consolidate some of its San Francisco operations into a new downtown project where it would relocate approximately 1,500 employees. But the city planning department stalled the project for two years, then ruled that the design did not blend with the surrounding architecture. Wells Fargo is now looking at new sites, mostly outside San Francisco.

With a $2.4 billion budget, San Francisco has one of the most bloated municipal payrolls in America, wi one public employee for every 2 residents. According to the San Fra cisco Economic Development Corp that compares with one for every 76 Los Angeles, one for 85 residents Oakland and one for 142 in San Jos It's almost as bad as New York, wi one for 21.

San Francisco's 25,000 public em ployees—all of them unionized—a the best paid in the state, earning 16 more than their counterparts in oth cities and 43% more than federal em ployees in comparable jobs. A seni building inspector, for instance, get maximum salary of $62,088 annuall compared with $46,884 in neighbo ing San Mateo County.

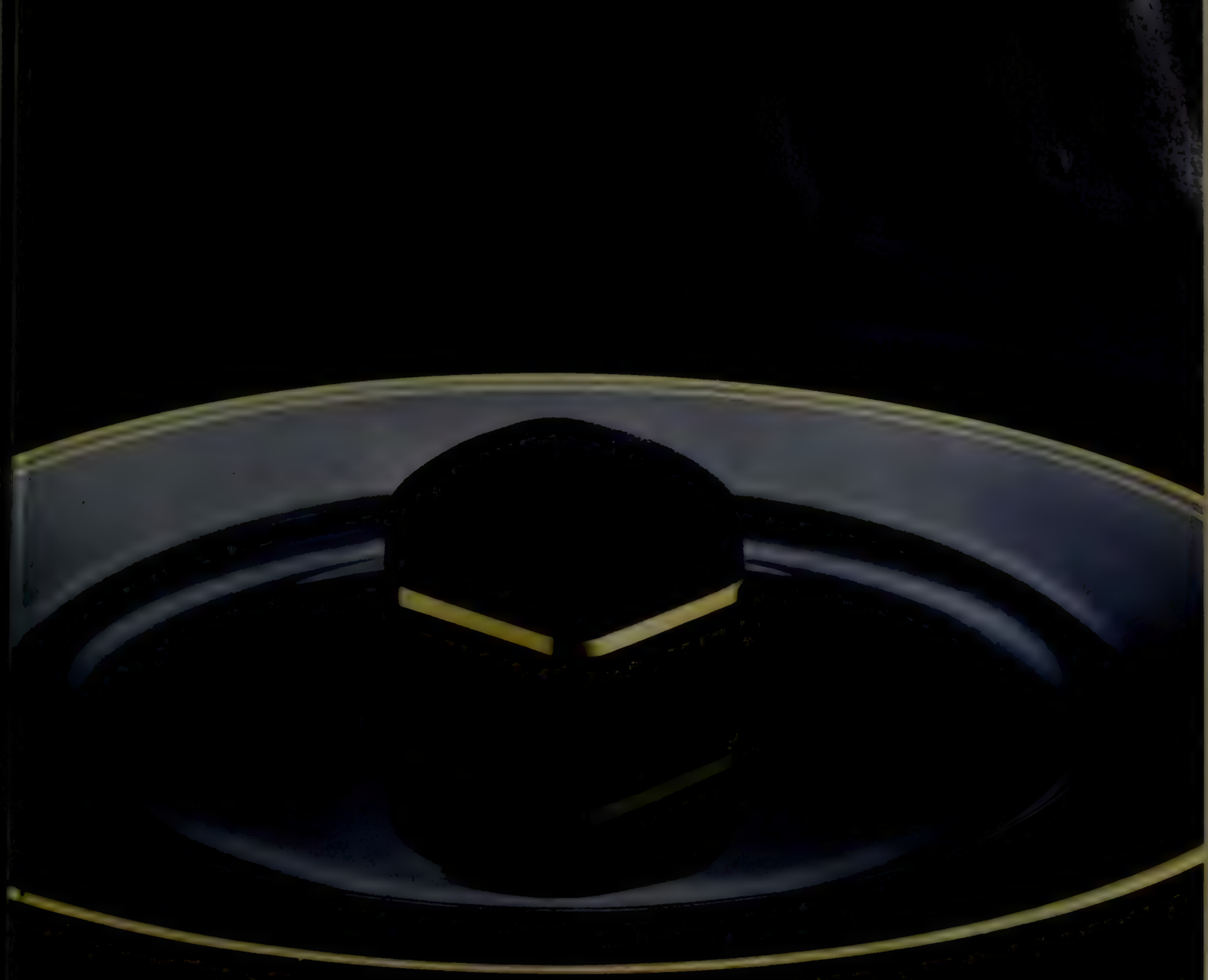
The city offers a staggering array costly social programs. For instance, grants general assistance relief $340 a month to a homeless perso after only three days' residency in th city, which explains why adjacent co ies routinely bus their indigents in.

Instead of cutting public expens as the city's business base erodes, Sa Francisco continues to bomba companies with taxes almost no oth municipality imposes, ranging from 1.5% tax on a company's payroll gross receipts (whichever is higher) a small business tax. Developers major projects pay everything fro child care fees to special fees of $2 square foot for all new downtow office development.

Last year Pacific Telesis paid $3. million in business taxes, or $720 p employee, in San Francisco. Th compared with $240 per employee Los Angeles, $120 per employee Oakland and $10 in San Jose. No the board of supervisors has propose everything from raising the payro gross receipts tax to increasing the re estate transfer tax by 50%.

Mayor Agnos is taking a what-me worry? attitude to San Francisco's de clining business climate. "We're no antibusiness; we're liberal," Agno says. "The business people are un comfortable with our ideology, bu that has nothing to do with business. think we have a thriving busine environment."

It's not easy to make New York Cit look like a desirable place to run business, but Agnos and the board c supervisors are doing it. ■



Opening Black could be the start of something beautiful.

Ultimately, there's Black.

© 1991 SCHIEFFELIN & SOMERSET CO., NY, NY JOHNNIE WALKER® BLACK LABEL® BLENDED SCOTCH WHISKY, 40% Alc./Vol (80°)

Photograph by Bruce Davidson

"Where there is an open mind, there will always be a frontier."

Charles F. Kettering

To be content with what is already known is to close the door on tomorrow.

It is this belief that drove us beyond our status as a world leader in x-ray technology.

Toshiba researchers in **South San Francisco** have helped to develop a faster, more accurate method of medical diagnosis called Magnetic Resonance Imaging.

It is becoming the new standard for medical imaging technology.

And it is one reason we will never cease to believe in a better tomorrow.

In Touch with Tomorrow

TOSHIBA

Color TVs & VCRs

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Medical Tubes

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MR Imaging

Nuclear Medicine

OPTO Electronic Devices

Picture Tubes

Professional Video Systems

Room Air Conditioners

Satellite Receivers

Semiconductors

Telecommunication Systems

Turbines & Generators

Ultrasound

Uninterruptible Power Supply

Variable Speed Drives

X-Ray Systems

Ray Irani has wasted no time moving out from under the late Armand Hammer's shadow and making Occidental Petroleum a much more profitable company.

The pragmatist

By Thomas Bancroft

Ann Summa

FOR 25 years Armand Hammer fought the city of Los Angeles for the right to drill for oil on a plot of land Occidental Petroleum Corp. owned in Pacific Palisades. Hammer had his reasons: The coastal property could hold as much as 60 million barrels, roughly $300 million worth of oil. There was no way the people of Los Angeles would let him drill the land, but Hammer kept the fight going.

In June, just six months after Hammer's death, his successor gave up the battle. "It was a pragmatic decision, it wasn't tough for me to make," says Oxy Chief Executive Ray R. Irani. "When you lose, you have to recognize it."

In almost every respect, the man who now runs Occidental differs from the man who built it. One senses this immediately upon entering the executive suite atop Oxy's 15-story west side Los Angeles headquarters building. Gone are Hammer's paintings and all the photos of him with movie stars and past dignitaries. They have been replaced by modest watercolors and a small Quotrek machine Irani uses to track Oxy's stock. Gone from the company's books are many of the toys that Hammer accumulated at Oxy shareholders' expense, including an unprofitable Arabian horse breeding operation and Armand Hammer's film production company.

But it is Irani's more substantive changes that are catching the attention of Wall Street and his competitors. He has sold over $2 billion worth of Oxy's assets and tendered for or called over $1 billion of the $3 billion in debt he has promised to retire. By year-end he will have cut the payroll by 2,300 workers. And he has cut the dividend from $2.50 to $1.00, saving close to $450 million a year, without decimating the value of the common stock.

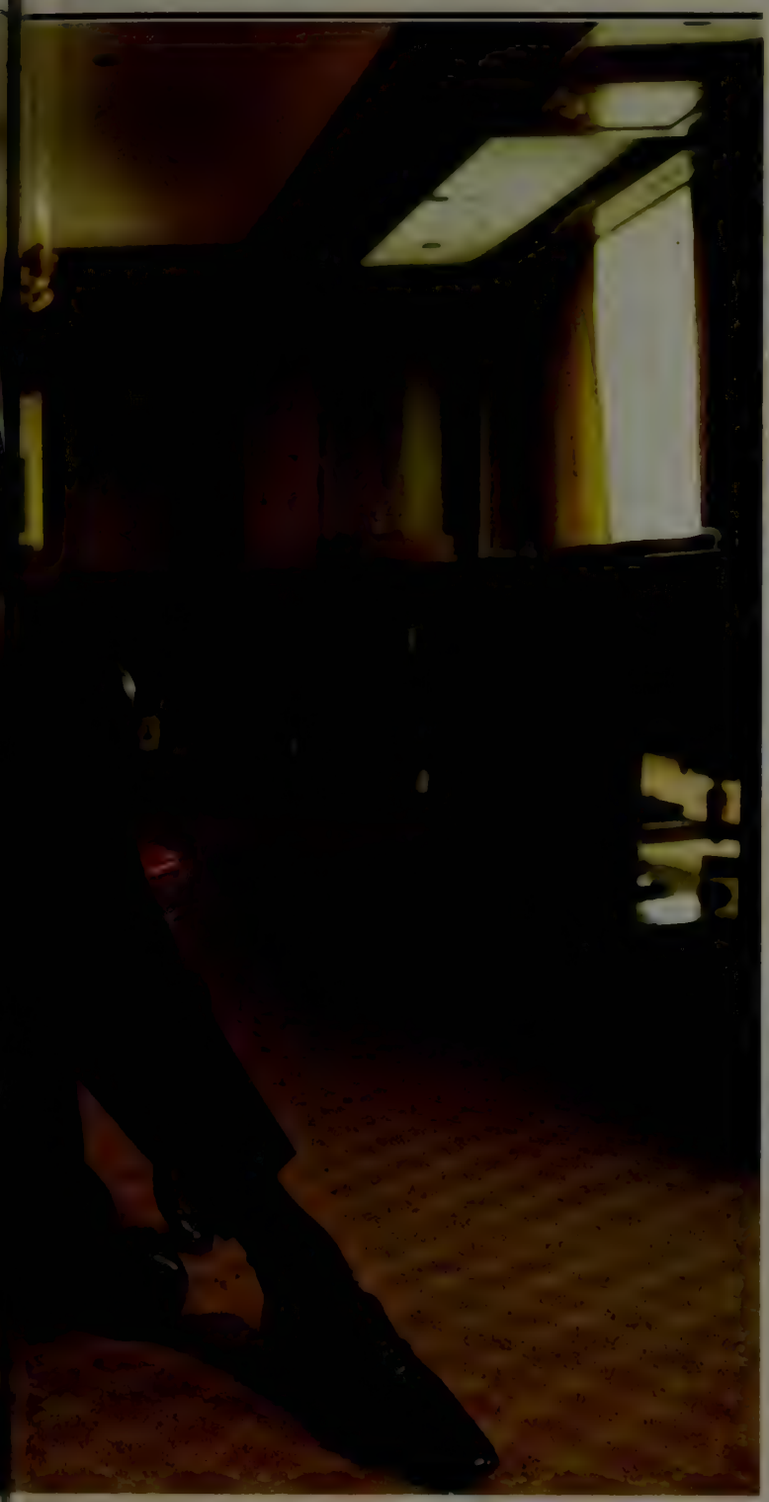
"Ray Irani has to overcome the Oxy-Hammer shadow," says Dale Hanson, the chief executive of CalPers, the country's largest public pension fund and a major Oxy shareholder. "So far, he has made good decisions." One indication: In the first six months of 1991 Oxy's net income was $283 million (94 cents a share), up from $195 million in 1990. Analysts think the company will earn $1.50 a share for the year.

Irani's single biggest accomplishment to date has been the sale of Occidental's U.K. subsidiary, including all of the company's oil and gas operations in the North Sea. While its North Sea fields have been good to Occidental over the years, Irani got a price he couldn't refuse: Last July, Société Nationale Elf Aquitaine, the large, 55%-state-owned French company, paid $1.5 billion (including $130 million of debt assumption). That figure represents over $10 a proven barrel of oil—roughly twice the going rate for North Sea reserves.

"This was a strategic buy for them," says Irani of the high price. "There is no property like this available today, and Elf needed reserves in the North Sea."

Two days before the anouncement of the Elf sale, Irani announced that Oxy had struck a deal to sell all of its natural gas liquid assets and business in the U.S. for $700 million. The buyer: a newly formed company called Trident NGL, which will be a 50-50 partnership between Oxy and Hicks, Muse & Co., a Dallas-based merchant banking firm. According to the terms, Oxy and Hicks will each invest $100 million of equity capital in Trident and borrow the remaining $500 million. Oxy will receive $600 million in cash and retain half the business. And because Trident will be carried as an equity investment rather than as a subsidiary of Oxy, Oxy does not have to consolidate its share of the $500 million in debt. As part of the deal, Trident will sign long-term supply agreements with Occidental's petrochemical operations in Lake Charles, La.

Add up these and some other, smaller asset disposals, and Irani has netted $1.8 billion in cash, after taxes. To help cut taxes on the sales and get some unwanted assets off the books, Irani late last year took a $2 billion



Occidental Petroleum's chief executive officer, Ray Irani
"Dr. Hammer was more of a romantic," says Irani. "He could fall in love with businesses, where I don't."

restructuring charge. He says it's too early to divulge exact profits on the asset sales but agrees they are in the neighborhood of $800 million.

Irani isn't letting the cash he has raised burn a hole in Oxy's balance sheet. On July 31 the company tendered for $820 million of its long-term senior notes; if the bonds are fully tendered, as seems likely, the company will save about $90 million a year in cash outflow.

Other asset sales may soon be in the works. Oxy holds a 51% interest in IBP, Inc., the nation's largest beef and pork processor. At a recent 19⅞ per IBP share, Oxy's stake is worth at least $480 million. That would be pure profit to Occidental, which bought IBP in 1981 for $750 million and took out a $960 million tax-free dividend when 49% of the company was sold to the public in 1987.

Irani wants to sell the IBP block but says he hasn't received any tempting bids. With sales of $10 billion, IBP earned a paltry $50 million last year.

Irani, 56, was born and reared in Beirut, Lebanon, the son of a math professor at the American University in Beirut. He earned a Ph.D. in physical chemistry from the University of Southern California, and has some 150 patents to his name. After moving up the ranks at a series of chemical companies—Monsanto, Diamond Shamrock and Olin—he joined Occidental in 1983, when Hammer invited him to try Oxy's executive revolving door. (The company has had seven presidents since 1968; Irani was in the chair when Hammer died.)

Given his background in chemicals, it is not suprising that much of Irani's effort will be focused on Occidental's big chemicals operation, OxyChem, which specializes in polyvinyl chloride, PVC. Net profits at OxyChem are close to 13% of the division's $5 billion in revenues, and that's in a down year. In 1989, when the industry was peaking, OxyChem earned over 20%, on sales of $5 billion.

What of oil and gas, Oxy's original mainstay? Irani says that he is spending 40%, the lion's share, of capital expenditures on oil and gas in 1991. Since 1964 Oxy has discovered over 10 billion barrels of oil and gas equivalents. Irani says he'll continue to exploit Oxy's ability to find reserves. "My game," he says, "is to spend money on exploration instead of paying premiums for [already discovered] oil and gas properties."

One headache Irani must face is a complicated $900 million law suit, $640 million of which is interest, brought against Oxy by the Department of Energy in 1985. The suit claims that in 1979 and 1980 Oxy entered into crude-oil transactions that violated pricing regulations. Gerald Stern, Oxy's chief legal counsel, retorts that the Department of Energy had previously okayed the transactions. (The DOE will not comment on the case.) Even if Occidental loses, Irani says the company has booked reserves to cover the suit, but he declines to say how much.

When asked to describe the difference between himself and his predecessor, Irani thinks for a minute and then quietly replies: "Dr. Hammer was more of a romantic. He could fall in love with businesses, where I don't." After decades of leadership by a mercurial entrepreneur, Occidental needed a pragmatic chief executive. In Ray Irani, it got one.

When it comes to commerce, speech is less free than you might think.

Bad news for bad-mouthers

By James Lyons

EVER GROUSE about your old boss? If so, you'd better be careful about what you say—he or she might sue.

Complaints about a prior employer can now in some instances be considered false advertising and unfair competition. A U.S. district court judge in New York recently refused to dismiss a suit brought by a small company against one of its former executives; a jury will decide if the executive wrongly bad-mouthed her former employer.

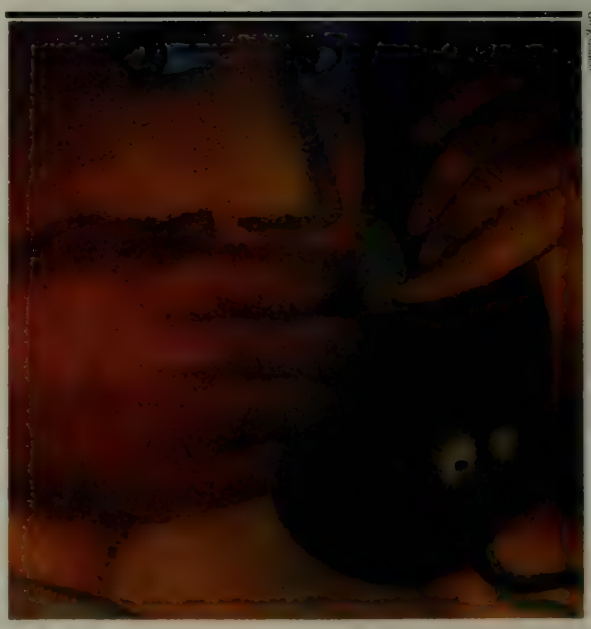
The former employee is Susan Weaving. She used to be the president of Namco Booking, one of the country's top theatrical booking agencies. Among the tours she's handled are those for *A Chorus Line*, Penn and Teller, *Phantom of the Opera* and *The Flying Karamazov Brothers*.

Weaving quit Namco at the end of January. She claims she quit because her former company engaged in "illegal and improper business practices," including stealing money from clients. Namco's owners deny the charges and say Weaving quit as the result of a dispute about expansion plans.

Weaving's theatrical clients—many of whom were also her friends—asked her why she quit and what she was going to do next. With varying degrees of specificity, Weaving explained her decision, saying to some, "I left because I had to take a moral stand."

Weaving also said she would eventually start her own theatrical booking business. She had even gone so far as to look at office space and come up with a name for her new firm.

Weaving had an employment agreement with Namco that had a variety of noncompete clauses. In talking to her old friends and clients, Weaving emphasized she could not solicit them. Nor, she says, did she ever tell them that Namco could not do a good job for them. Nevertheless, Namco sued Weaving in March, later claiming that she had engaged in unfair competition by making "misleading representations" to promote her competing business.



Greg Couch

Namco's claim is based on the Lanham Act. Passed by Congress in 1946, the statute imposed liability if someone used a "false description or representation" in an advertisement that confused consumers.

The law makes sense. No one wants to buy Georgia peaches only to find out later they were grown in New Jersey. But over the years courts failed to find language in the act to justify extending liability to an advertiser for falsely portraying a competitor's product.

Three years ago Congress set out to correct that anomaly, amending the law to permit suits for falsely advertising another's product. This time the legislative language was clear: Suits could now be brought against someone who, in advertising or promotion, misrepresents their own or another person's goods.

Congress also tried to insure that the law did not run afoul of any First Amendment concerns. Said the bill's sponsor, former Representative Robert Kastenmeier, "The section is narrowly drafted to encompass only clearly false and misleading commercial speech."

Back to the feud between Susan Weaving and her former employer. The central question for U.S. District Judge Kenneth Conboy was whether Weaving's statements comprised commercial speech. Weaving's lawyer argued that the remarks about Namco were "common bad-mouthing," at worst. Since Weaving's new booking firm was not in operation, her speech was not intended for advertising or promotion, and hence was not commercial, her lawyer said. Weaving asked that the case be dismissed.

Judge Conboy declined to dismiss it. He wrote that Weaving had disparaged Namco's integrity, "the sine qua non for a successful theatrical booking agency." The judge also found that even though Weaving's discussions took place with friends who also were customers, she had engaged in commercial speech, noting that some of the conversations may have been primarily for a business purpose. A jury will now decide whether Weaving's allegations are true or false and whether she violated the Lanham Act.

Ironically, the architect of Namco's claim is Gerald Singleton, a New York lawyer who usually represents authors and publishers. He considers himself a friend of the First Amendment. But he has a discomforting recommendation for disgruntled executives who find themselves in Weaving's predicament. When asked why you left a job, counsels Singleton, "just say, 'I can't talk about it.' "

MARCH 5, 1994

What all this noise about political correctness on campus shows is that business people should not limit their educational participation to check writing.

Back to school

BY MICHAEL NOVAK

Michael Novak holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely translated around the world.

IN MY imagination is a bumper sticker: "Back to School—Do You Know What Your Children Are in For?" Believe me, parents don't know. Even trustees don't know—otherwise, they would be doing something.

Dinesh D'Souza's recent book, *Illiberal Education* (as of mid-August, 13 weeks on the *New York Times* bestseller list), describes the new McCarthyism that stifles questioning on campus, especially on such topics as race, sex and gender, the Reagan revolution, the poor and the environment. Only certain opinions are deemed politically correct and morally acceptable. Dissidents are likely to suffer public ridicule (or even censure). If students disagree with the new orthodoxy in term papers, they are likely to be marked down.

If you ask students how they endure P.C.-speak, they shrug and tell you with a smile that they don't let their teachers know what they think. They learn the opinions expected of them and feed them back—just as Eastern European students used to do.

One college president, stung by the charges that "P.C." exists on campus, urged his faculty to publish more op-ed articles, so that the public can see what is "really" going on. He didn't seem to see the irony in that. As professors go public, the public will see, as a University of Illinois professor put it, that "we are in opposition to what I would essentially call religious values."

Of course, to leftists on campus, the new tyranny is invisible or doesn't even exist. What seems to outsiders tinny and false seems to them, by contrast, like reality itself, the reality they passionately embrace.

The problem is that the modern university faculty is not only a self-selecting, self-perpetuating guild (which university faculties have always been, and properly so) but also a political enclave unto itself. What is taken as "common sense" on campus is not the same as common sense in the outside world. Mainstream political opinion on campus, particularly in the humanities and social sciences, is far to the left of mainstream political opinion in the country.

For example, a recent Carnegie Foundation poll, published in the *American Enterprise* (1150 17th St., N.W., Washington, D.C. 20036), indicates that only 31% of the faculty in liberal arts colleges describe themselves as "middle of the road" or "conservative." A whopping 69% describe themselves as "moderately liberal" or "liberal."

In colleges and universities as a whole, some departments are even more lopsided. Professors of humanities identify themselves as liberal versus conservative by 76% to 15%; in ethnic studies, by 76% to 2%; in economics, by 63% to 20%; in journalism, by 63% to 23%; in social sciences, by 72% to 14%; in public affairs, by 88% to 0%.

Some professors, of course, are admirable for their ability to present fairly views other than their own, and most probably try to do so. Some, though, are aggressive in their passionate embrace of "reality." The dean of humanities at Arizona State University, ideologically trained at Berkeley in the 1960s, says, "I see my scholarship as an extension of my political activism." He intends to expose the fact that "the United States has taken this incredibly fertile continent and utterly destroyed it with a ravaging hatred."

In P.C., capitalism is a particular object of loathing, and not only in America. After absorbing two full days of anticapitalist rhetoric at an academic conference in England this summer, Sir William Ryrie of the International Finance Corp. began his lecture on the worldwide turn to capitalism with the wry quip "I don't get to the academy often. I have learned in the last two days that I have been devastatingly out of touch with the unreal world."

Professors of humanities, economics, journalism, ethnic studies and public affairs are important leaders of the American cultural system. Is it healthy for democracy when its cultural leaders have a view of reality far out of accord with that of leaders of its economic and political systems? Diversity of viewpoint is extremely valuable in a democracy—but not when its components are kept hermetically sealed from one another in isolated enclaves.

What's the best remedy? Dialogue, argument, interchange. Universities could not survive without endowed chairs, corporate matching grants, privately raised scholarship funds, gifts, endowments. But the relation between universities and the business world should be much more than financial. No money should pass hands unless reasoned argument is also publicly engaged. Leaders of capitalism have an overwhelmingly powerful moral case. They should make it in the universities above all. ■

MARCH 5, 1994

WE CAN CHANGE THE FUTURE.

At this moment there could be a burglary in your future. But that can change. You can stop that break-in now. Before it ever happens.

As a property and casualty insurer, we know burglars are especially enamored of electronics plants. We also know the steps you can take to help make your premises less attractive to them. You have to be committed to those steps. But so does everyone else we group you with—electronics people like you who share the same kinds of risks. And who will also share the same lowered premiums and the possibility of dividends that come with diligent loss control. It's that way for every industry we insure.

Call your agent or broker about us. And make sure the bad guys don't have a future with your company.

Atlantic Mutual, 45 Wall Street, New York, NY 10005

AtlanticMutual

IT PAYS TO BE CAREFUL.

New ads are poking fun at Wilson Bryan Key and his theory of subliminal advertising, but the man himself is as prosperous as ever, thank you.

Search and find

Self-styled subliminal advertising expert Wilson Bryan Key
"When you sexualize food, you make it irresistible."

IT RANKS AS one of the great moments in the histories of advertising and of profitable niche creation. In 1970 Wilson Bryan Key, then 45 and a journalism professor at the University of Western Ontario, was lecturing to his writing class about an article in *Esquire*. "I happened to walk around the desk," recalls Key, "and looked at the illustration for the article upside down. 'Wow!' I thought. 'Who put *that* there?' It was a phallus on a bookshelf! That was the first one."

It was the first one, that is, of the many sexual images that Key began discovering in advertisements. A dirty-minded professor? Some people thought so; a lot still do. But building on a concept advanced by amateur psychologist Jim Vicary in 1957, Key went on to convince millions of Americans that Madison Avenue consciously laces its ads with sexual and other powerful images. The images are there, says Key, if only you look hard enough.

Key turned his theory of subliminal advertising into a nice business for himself. In 1975 he quit teaching. Since then, in four books (the most popular was *Subliminal Seduction*, reissued this year) and tireless lecturing on the college circuit, Key has beguiled audiences with examples of intentionally camouflaged genitalia, breasts and monsters in ads for just about everything, from Wrigley's Spearmint Gum to Ritz Crackers.

Ritz Crackers? "When you sexualize food, you've just made it irresistibly appealing," says Key. "It makes the Ritz cracker taste even better, because all of the senses are interconnected in the brain."

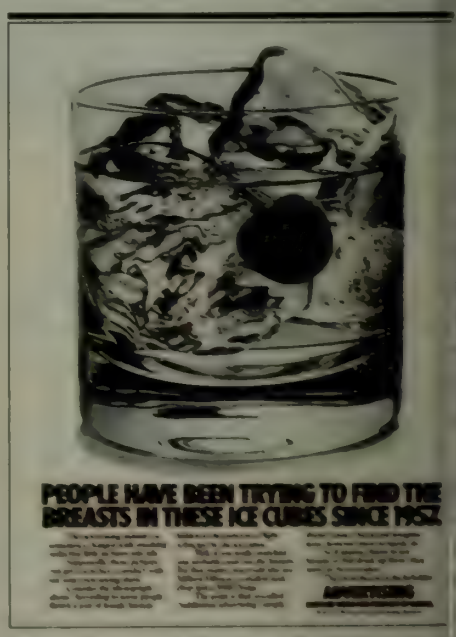
The advertising community has never taken Key seriously. "There's no evidence the brain works the way Key says," says Don E. Schultz, a professor of advertising at Northwestern University's Medill School. "I mean, if you can't find the phallus after staring at it, how's the brain going to process the information?"

Agrees John Gruen, a creative d rector at Ogilvy & Mather: "Techn cally, you can adjust images any wa you want, but it's tough enough t get across an obvious message lik 'toasty oats are crunchy.' To be deli erately obscure is crazy."

Periodically, the establishment tri to debunk Key and his sublimin advertising notions. In the mi 1980s the American Association Advertising Agencies mailed an a vertising flier to a number of newsp pers and magazines. The headline o the flier read: "People have been tr ing to find the breasts in these i cubes since 1957." The ad went on t say, "Well, if you really searched, yo probably could see the breasts. F that matter, you could also see Millar Fillmore, a stuffed pork chop and 1946 Dodge." (Key examined th AAAA's ad. He admits there are n breasts, no Fillmore, no pork cho no Dodge. He did, however, find collection of grotesque faces, animal a shark and an erect phallus.")

The public thinks Key knows wh he's talking about. A recent poll com missioned by Seagram Co. found th 62% of American adults believe Mad son Avenue is using Keysian sublim nal images to sell products. Says K Eisenstein, Key's lecture circuit agen "Even if it is a controversial theor people see it as credible."

Well, if you can't beat Key.



A trade ad meant to debunk Key's theory
But the public believes Key.

solut vodka's subliminal spoof
riking back, with humor.

ately Madison Avenue has been riking back. Its weapon of choice: arody.

Several new ads feature images that ally have been carefully hidden, and ally can be found if you look hard ough. In an ad for Seagram's Extra ry Gin, for instance, a tiny golfer is icked away in a splash of gin. The ad ads: "Look for a wedge and a splash, d find the hidden pleasure in reeshing Seagram's Gin."

Or consider a new version of ad gency TBWA's popular Absolut vodka ds. Called "Absolut Subliminal," it ows a glass of vodka with the prodct name imprinted faintly on the e cubes.

"I've never heard of people using e stuff Key talks about, but we gured we're always being accused of , so why not do it for real in a jocular ay?" says Ogilvy & Mather's John ruen, who created the Seagram's xtra Dry ad.

How is Key doing in the face of this arody? Very nicely, thank you. With bout a million copies of his books ld and as many as 30 lectures a year t $3,000 per lecture) around the ountry, Key seems to have become n institution that won't go away.

Northwestern's skeptical Don chultz reluctantly tips his hat to Key. He's figured out a way to make large ums of money using his imaginaion," says Schultz. "I kind of wish I hought of it 20 years ago." –J.L.

Grade school kids have many needs, like bicycles, popcorn and sneakers. But is a deodorant of their own really one of them?

The sweet smell of youth

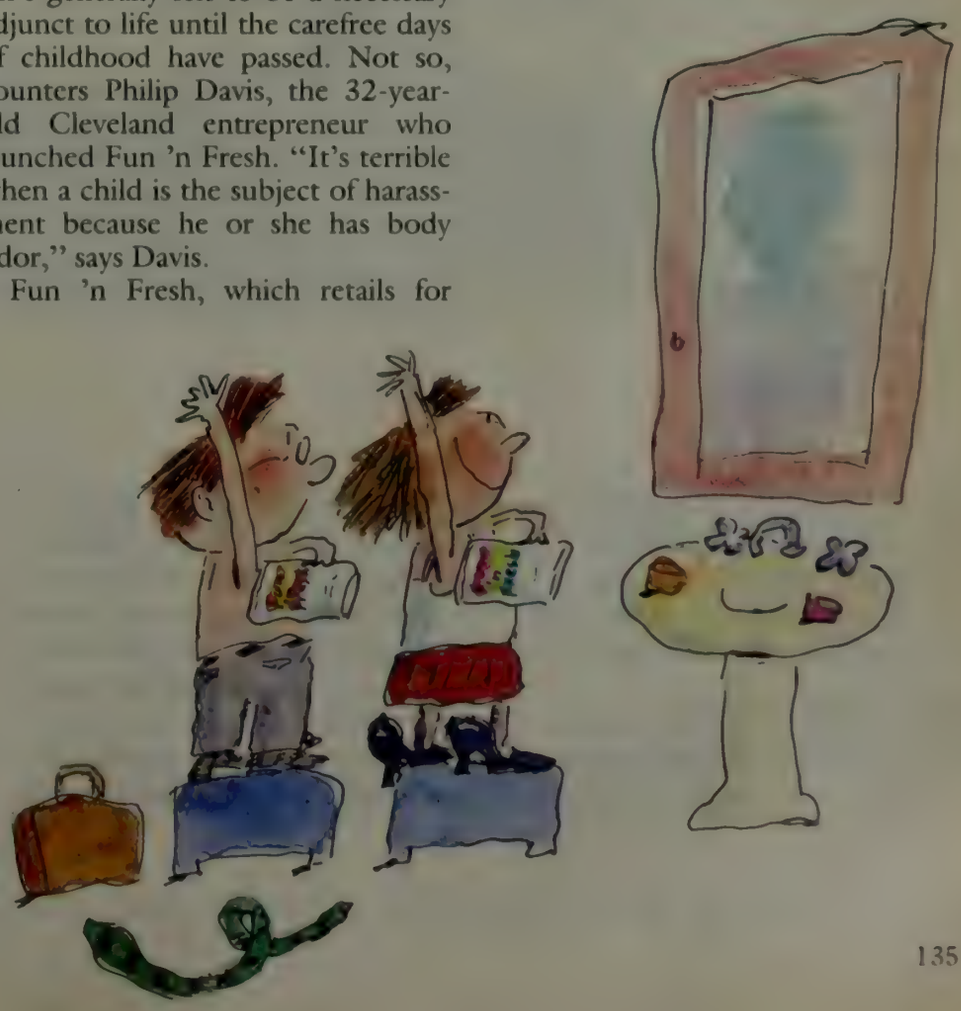
NICHE MARKETING is all the rage these days, giving us everything from gourmet pet food (FORBES, *Aug. 19*) to organic bathroom tissue. Sometimes niche marketing yields a product that fills a real need for a distinct, underserved group—adult incontinence products, for instance. But what are we to make of Fun 'n Fresh?

Billed as the first deodorant specifically made for and marketed to kids, Fun 'n Fresh is a new product currently being sold through mass-market chains like Wal-Mart, Kmart and Revco. Target audience: girls and boys between 7 and 12.

Like car payments, bunion pads and decaffeinated coffee, deodorant isn't generally felt to be a necessary adjunct to life until the carefree days of childhood have passed. Not so, counters Philip Davis, the 32-year-old Cleveland entrepreneur who launched Fun 'n Fresh. "It's terrible when a child is the subject of harassment because he or she has body odor," says Davis.

Fun 'n Fresh, which retails for $1.99 for 1.5 ounces, has had sales of roughly $500,000 since it was introduced last year, says Davis, but that's without any promotion. Davis says he is currently negotiating with a Cleveland venture capital fund for a $2 million investment, which he estimates would help push sales to $13 million in 1992.

Envisioning things like mouthwash and foot care products for kids, Davis figures he can mine this niche for all it's worth. "Kids want ownership of their personal hygiene," says Davis. "There's a definite correlation between hygiene and self-esteem." Let's see if the country's kids agree with him. –J.L.



DéjàVa

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The new COMPAQ DESKPRO 486/50L Personal Computer has everything for the most voracious power users, and for intensely demanding networks. It has Intel's fastest, most powerful microprocessor—the 50-MHz 486 (more than 50% faster than the 33-MHz 486). A second-level cache so big (256 Kbytes) that 99% of the time, the data you need will be instantly accessible. A more-than-generous 8 megabytes standard RAM. Plus dozens of other features for speed and top performance.

Every component is carefully chosen, tested and perfected to make sure they work together to deliver the maximum performance possible.

Who's it for? Designers and engineers longing to stretch CAD/CAE to its limits. Software developers who want compilation without limitation. Scientists who seek

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roooom.

ccelerated analysis. Anyone who wants o push Windows wide open and watch raphics-based applications fly.

What's good for one power user is also deal for a group. Exceptional speed, expand- bility, and practically limitless storage (more han 20 GB) make it an extraordinary network server and multiuser host.

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COMPAQ

It simply works better.

Larry Ellison, who used smoke and mirrors to turn Oracle Systems into a highflier on Wall Street, says he is now a reformed man.

"The arrogance was unnecessary"

By Julie Pitta

WHEN DATABASE software juggernaut Oracle Systems Corp. was in its heyday—that is, before its market capitalization crashed from $3.8 billion a little more than a year ago to a recent $700 million—its founder and chief executive, Lawrence Ellison, was fond of lavish theatrical gestures. For example, he held a press conference aboard a Concorde jet to trumpet the performance of Oracle's software. It also not so subtly underlined the company's spectacular record of growth.

The boss' public arrogance influenced his employees. "The typical Oracle [employee] drove a Jaguar, had a 5 handicap on the golf course and no concern about who he was working with," says Robert Burgess, a vice president of Silicon Graphics, a computer maker.

But then Wall Street discovered that Ellison was fudging Oracle's numbers. He pumped up revenues by recording sales, in some cases, before a contract was signed; many of these "customers" didn't start paying for software until up to a year later—if they were still customers, a big if. "They rushed products out to be the first, and sometimes they weren't well tested," says Michael La Magna, a corporate database manager active in Oracle's New York user group. "When you had a problem, hours or days could pass before you'd talk to a support person."

Not satisfied with exaggerating sales, Ellison also inflated profits by immediately capitalizing—rather than expensing—some R&D costs (FORBES, *May 1, 1989*).

Recalls Bruce Mitchell, a former Oracle executive now running a software startup: "It didn't matter what you thought you could do when you sat down at the end of the year to make your forecasts. You were given a number by your manager, and you knew it would be a doubling [from the year before.]"

Oracle's Larry Ellison
"You pay a price for growing too rapidly."

When Oracle shocked Wall Street nearly a year ago by restating its prior-year results, profits suddenly turned into losses and the company's stock collapsed. For its fiscal year ended May 31, Oracle lost $12 million on sales of $1 billion.

Today Ellison is eating humble pie. "The arrogance," he says, "was unnecessary. We made public statements that benefited no one."

In his struggle to turn Oracle around and regain some credibility, Ellison has replaced four senior executives, streamlined the company's decentralized organization and installed a more rigorous quality assurance program for Oracle products. The company has begun to implement the accounting standards that spread revenue for software support over the life of a contract, and that set rigorous conditions for payment terms before a deal is booked as a sale.

When customers with technical problems call Oracle's new service hotline, they are now likely to get a live service representative. This is a big step forward from the old days, when a customer would reach a secretary who might or might not get a message to a technical person. Meanwhile, computer companies that were treated brusquely now sense that Ellison is interested in working much more closely with them. "There's been a change in attitude," says Silicon Graphics' Burgess, who notes that the transformation began after a personal meeting with Ellison.

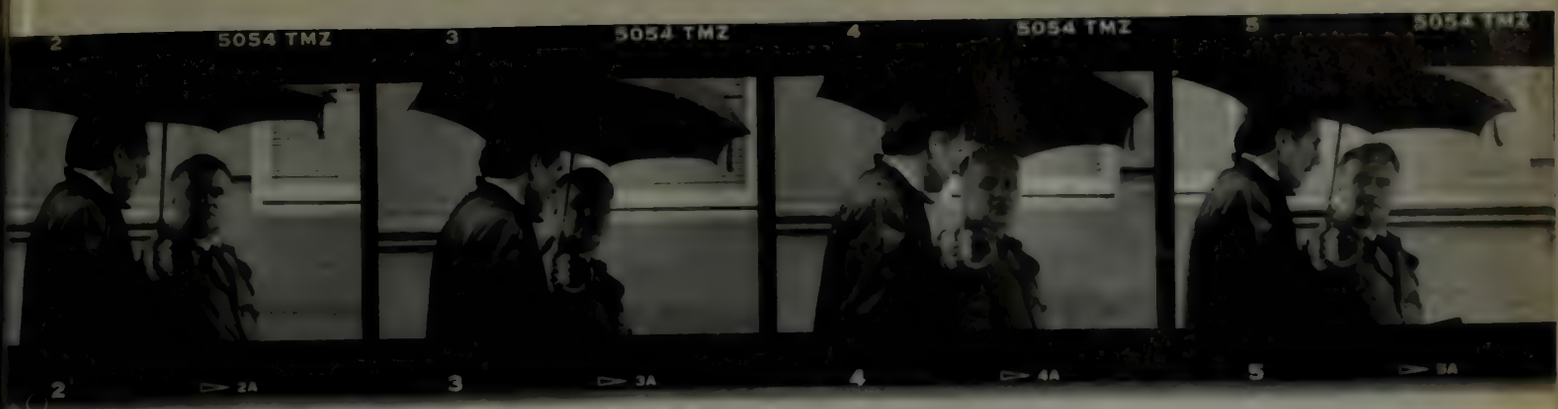
Fortunately for Ellison, Oracle's technology was and is fundamentally solid. Its relational databases allow computer users to access large stores of information in a selective way. Bristol-Meyers Squibb scientists use Oracle's relational database software on a cluster of Digital Equipment Corp. minicomputers to track proposed pharmaceuticals through the federal regulatory maze.

Unlike the proprietary database software offered by both Digital and IBM, Oracle runs on a wide variety of computer makes. As a result, the company has captured nearly half of the relational database software market.

Ellison still defends Oracle's zeal for revenue growth. "I only wish we could have done it effortlessly," he says. Because of its complexity, Oracle's software costs much more to develop and to sell than comparable personal computer software. Ellison spends to keep his technology up to date. Oracle recently released a version of its software for superfast parallel processing computers.

So Ellison needs a large customer base to support his high-cost operation. Smaller competitors like Sybase, Ingres, recently acquired by Ask Computer Systems, and Informix, which was also forced to restate revenue, have all had difficulty making a profit.

"You pay a price for growing too rapidly," sighs Ellison. In Oracle's case, the price was its reputation. It can be regained, but slowly.



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In computers, timing is as important as technology. Consider Sequoia Systems' brush with death.

Bleeding edge technology

By David Churbuck

ONE OF THE LIVEST wires in the computer industry is little Sequoia Systems, Inc. of Marlborough, Mass. In its fiscal year just ended in June, sales were up 30%, to $63 million, and earnings were up 55%, to $7 million. Sequoia's stock has climbed 40% since the company went public just over a year ago. With a price/earnings ratio of just under 17, Sequoia is considered cheap by some of the analysts who follow it.

But Sequoia nearly didn't make it. "We almost lost it in 1986," says Gabriel Fusco, chief executive officer of this specialty computer maker. "The company was out of cash."

In Silicon Valley-speak, Sequoia's idea went beyond the leading edge of computer technology and crossed over into bleeding edge technology. It took six years for Sequoia's engineers to get the bugs out of its machines, and for customers to be convinced of their merits. Few startups can afford to wait that long.

Sequoia's story begins in 1981, when the company was founded by a designer of space-borne computers. Jack Stiffler had worked for years in the space industry, designing so-called fault-tolerant systems that could suffer internal failures yet keep on functioning error-free. In 1981 Stiffler quit his job at Raytheon to form Sequoia, taking the name from a Silicon Valley cleaning service whose van happened to roll into a parking lot outside his window. The company later moved to Massachusetts, and Stiffler is chief technology officer.

Fault-tolerant computing was mandatory in the 1970s for things like air traffic control systems, development of the space shuttle and other critical functions that depended on imperturbable computing. It is now required for things like automatic teller machine networks and 911 emergency telephone service.

A fault-tolerant computer basically has at least two of everything: two disk drives mirroring each other, two power supplies, two sets of memory—in short, the redundancy to cope with those rare but potentially costly events when a chip fails or an electronic blip causes the system to crash.

Backed in 1981 by $29 million in venture capital, Stiffler and two cofounders decided to design their fault-tolerant computers around Unix, the AT&T operating system that is noted for its ability to run on many different makes of computers. Today Unix has made big strides in the commercial computer world. In those days, however, it was virtually unknown to corporate computer types. Sequoia's researchers ate up cash trying to adapt Unix to the peculiarities of fault-tolerant computing, while its salaried salesmen waited around for customers to start buying.

"The decision [to use Unix] nearly broke us," says chief executive Fusco. Back then Sequoia's competitors were successfully selling computers that ran their own peculiar brands of software. Tandem Computers, the market leader today, was first with a successful software system for fault tolerance, which became popular with large financial institutions and stock exchanges. Later, Stratus Computer broke into banks and airlines with its own proprietary fault-tolerant computers (FORBES, *Apr. 1*).

Fusco, a 26-year sales and marketing veteran of IBM, was recruited to run Sequoia in 1987, when cash had all but evaporated. To get the most mileage out of what was left, he quickly fired the company's public relations firm. "We had no product to publicize," he says. He also pared down the marketing staff and secured enough new capital to keep the company going until it could ship its first machine. And he leveraged Sequoia's ten-person national sales force by signing up as resellers big companies, like Hewlett-Packard, that don't make fault tolerant machines of their own. H even bought 8% of Sequoia's shares.

As an understanding of Unix's advantages spread, Sequoia's sales began to grow. Today Sequoia is a distant third in the market for fault tolerant machines, behind Tandem and Stratus, according to Carolyn Griffin, at Framingham, Mass.-based market researcher IDC. Sequoia's customers include the Federal Aviation Administration, which uses Sequoia computers to provide weather reports to pilots, and Bay State Health Care, a large prepaid health organization that uses them for claims processing.

Now Tandem and Stratus are also providing Unix-based fault tolerance to their customers. Sequoia has survived, but a lot of high-tech pioneers who stake their futures on bleeding edge technology aren't so lucky. ■

Sequoia's Fusco **"We almost lost it. The company was out of cash."**

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Etch A Sketch computing

COMMENTARY BY RICHARD A. SHAFFER

Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter*.

PERSONAL COMPUTERS these days are like pieces of meat. They are more alike than different and might as well be sold by the pound. I blame the sameness on our demand for industry standards. We customers don't want to have to learn about several different operating systems, keyboards and the like. Standards, in turn, have made PCs less expensive to build and, consequently, easier for you and me to afford, but standards have also made it almost impossible for any PC maker to profit by distinguishing its brand of desktop computer from any other.

Even in the high-growth category of notebooks, novelty is rare. Of the more than 150 brands on the market, most look like Compaq's LTE series.

The so-called pen-based computers, however, offer hope to an industry troubled by the same old same old, and to investors as well. These new computers rely not on letters and numbers typed into a keyboard but on writing, marking and gesturing with a pen on the display screen of the computer. The pen computer, which looks something like an Etch A Sketch, may be the most promising development in computing since the Macintosh and the mouse.

Of course, pen computing could turn out to be one of those marginally practical ideas that the computer industry is always falling in love with, such as voice recognition and artificial intelligence. However, I believe that pen technology will liberate PC designers and their customers from keyboards. It also may loosen the constraints of the industry's standards, giving rise once again to innovation, product differentiation and, one hopes, profit.

How can you play pen computing as an investor? There are very few publicly held companies that are exclusively in the pen-based computer business. For example, although Grid Systems already is selling tens of thousands of such systems a year, Grid is only a tiny part of the company you can invest in, Tandy Corp.

One investment angle is to look for suppliers of important underlying technology. For example, pen computers need digitizers, the circuits that tell the computer when the pen touches its screen, where on the screen it is, and in what direction it is moving. Summagraphics Corp. could become important here.

Pen computers must also understand handwriting, which brightens the prospects for developers of software that recognizes handwriting. One such developer is Nestor Inc., a tiny public company in Rhode Island.

If there is one complaint that unites all users of portable computers, it is that the batteries don't last long enough to make the products truly mobile. Instead of waiting for breakthroughs in battery technology, you'd do better to put your money in companies whose products reduce a computer's needs for power. Among them is Chips & Technologies, which makes circuits that send a portable computer into a power-saving trance whenever it's on but not doing work. In addition, Intel has begun selling special versions of its microprocessors that are miserly with a watt.

For pen computers, smaller disk drives, which use less power, are al in the offing. For example, 1.8-inch diameter drives are being readied b Conner Peripherals and others to tak the place of today's smallest drive which are 2.5 inches in diameter.

In some pen computers, disk drive will be replaced with memory chi from companies like Intel and Su Disk, a startup in Santa Clara, Calif

In displays, pen systems will i crease demand for lighter, bright screens with higher contrast. A though the display market belon almost entirely to large Japane firms, there may be a growing role f public U.S. outfits like In Focus Sy tems, which makes display panels.

The ability to communicate wit out wires is, or ought to be, t hallmark of a computer that's port ble, as most pen-based systems w be. In addition to IBM and Motoro which are involved in wireless da communications through their Ar partnership, the need for commun cating pen computers could ma public companies of such private su pliers as Photonics of Campbe Calif., and Cellular Data of Pa Alto, Calif.

Of course, pen computers ne operating systems. Microsoft will o fer one. For those who can't deci which operating system to use, who want to buy a pen system witho having to worry which operating sy tem will become predominant, t technology to create pen compute with dual operating systems is bein developed by Phoenix Technologie

Now, having told you all this, must also tell you that the princip pen-computing investment opport nities involve none of the above. Th companies to watch are GO, Momen and Slate. GO, of Foster City, Calif has developed the PenPoint opera ing system that IBM and others hav licensed. Momenta, of Mounta View, Calif., is making a pen compu er. Slate, based in Scottsdale, Ariz., developing applications software fo pen-based systems. All three are pr vate, and any public offering is at lea a year or two away. Yet these a names to tuck away. These are th companies most likely to break th personal computer industry out of it sameness, and if they do well, they wi do very well, very quickly. ■

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Amino acids have the potential to cure insomnia, treat depression, prevent eating disorders—and to kill. When is the FDA going to start treating them like drugs?

Killer acids

By Reed Abelson

WHEN HELEN JONES, a 52-year-old forklift operator from Salem, Ore., complained to her doctor about difficulty sleeping, the doctor suggested that she take an amino acid called L-tryptophan, easily purchased in any health food store. Amino acids—roughly 20 of them make up the basic building blocks from which the human body is constructed—are present even in ordinary cow's milk.

But after taking L-tryptophan tablets, Jones became seriously ill. She tired easily and suffered from cramping muscle pain. Blood tests showed that she had an abnormally high number of eosinophils, a type of white blood cell. She lost the use of her arms and legs. Today, after extensive physical therapy, she can get around with the aid of a walker but has no feeling below her elbows or in most of her legs. "She will be a cripple for the rest of her life," says her husband, Donald, who quit his job as a construction worker two years ago to care for her. She has yet to receive any of the $1.4 million in damages recently awarded to her from the company that produced the tablets she took.

Helen Jones is one of thousands of Americans who developed eosinophilia-myalgia syndrome two years ago, apparently as a result of taking tainted L-tryptophan made by Showa Denko K.K., a Japanese chemical company. As many as 10,000 people may have developed the syndrome and 31 have died.

Showa Denko denies a causal link between its amino acid and the epidemic. But scientists in and out of government are convinced that Showa Denko's L-tryptophan caused the illness. Showa now faces at least 850 U.S. lawsuits claiming a total of roughly $1 billion in damages; it has settled only about 30.

These days the Food & Drug Administration is under attack for taking too long to evaluate AIDS drugs and other pharmaceuticals. There is merit to the attack. But this sad story shows what can happen when little-known compounds are made available for mass consumption as home remedies, without the tough clinical studies that routinely accompany any new drug.

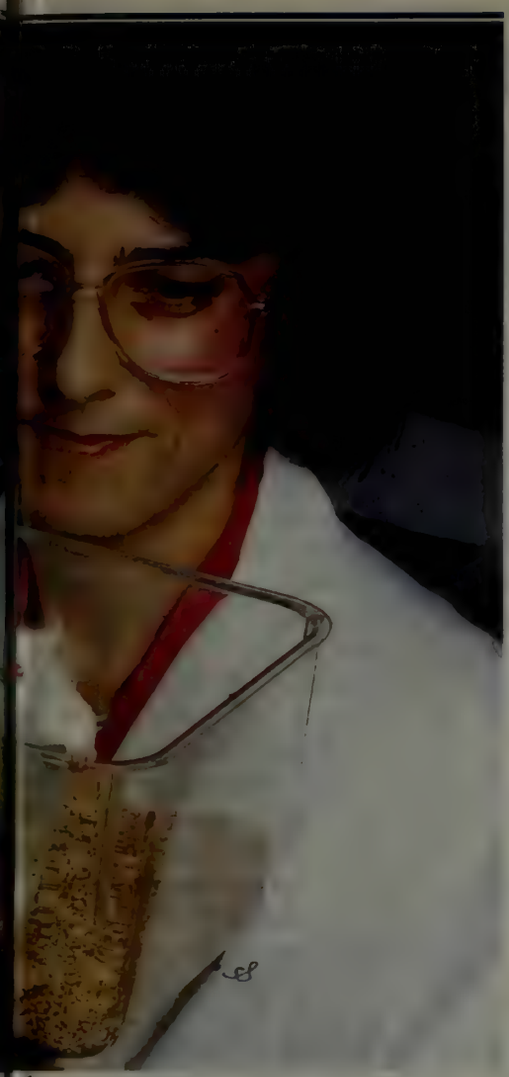
Americans spend $3.2 billion each year on nutritional supplements, including "natural" amino acids, vitamins and minerals. Amino acids are sold as treatments for everything from alcoholism (L-glutamine) to herpes (L-lysine). While it is illegal for manufacturers to make medical claims without prior approval from the FDA, health food stores routinely sold brands of L-tryptophan with names like Nature's Tranquilizer or Calm Kids. Often, articles from magazines like *Prevention* or *Health News & Review* were posted nearby, touting the "health" claims. Although L-tryptophan is now banned, other amino acids remain on the shelves.

The FDA has chosen to ignore the proliferation of health claims being made for amino acids, and has not required manufacturers to perform the kind of detailed studies of possible risks that are mandatory for a new pharmaceutical product. The FDA does not usually inspect overseas suppliers of "food additives," but does rigorously inspect pharmaceutical makers. When FDA investigators finally did visit Showa Denko's factory in Japan in May 1990 to find out what had happened in the eosinophilia-myalgia epidemic, the inspectors found incomplete records, which made it impossible to know exactly how the L-tryptophan was made.

The fault is not entirely the FDA's. Nearly 20 years ago the FDA attempted to take amino acids like L-tryptophan off the shelves. But through a clerical error, amino acids were inadvertently included in a 1977 list of substances the agency considered "generally recognized as safe."

The FDA tried to correct its error by publishing a correction notice the following October. But the courts later ruled the 1977 regulations were valid, even though they were published in error. A year earlier, an amendment sponsored by Senator William Proxmire (D–Wis.) limited the FDA's authority to police vitamin and mineral supplements.

Rather than crack down on the amino acids that touted unproven health claims, the agency simply backed off. Curiously, the agency has been tough on G.D. Searle's aspartame artificial sweetener, which contains minute amounts of amino acids; aspartame had to go through a full-dress review at the FDA before it was approved for use as a sweetener. Yet amino acids that are sold as home nostrums in health food stores have



Paul Fetters

Researcher Sternberg of NIMH

Could 31 deaths have been prevented?

been ignored for years.

Many amino acids, including L-tryptophan, do have useful pharmacological effects. L-tryptophan is a chemical precursor of serotonin, a neurotransmitter, which is believed to play a role in certain neurological disorders, from eating disorders to migraines. (When taken alone, L-tryptophan significantly increases brain serotonin levels.) Another amino acid, L-threonine, may be useful in reducing the muscle spasticity in paraplegics. And L-carnitine, a nutrient, was approved as an orphan drug for treatment in muscle diseases.

But no drug company will spend the necessary $10 million or so to demonstrate to the FDA that the compounds are safe and effective. Why not? Because amino acids making a variety of "drug" claims are being sold in health food stores without FDA review. Thus, the company that spends millions on testing is competing against generic health food versions of the same compound.

"Not calling these compounds drugs becomes self-fulfilling," says Richard Wurtman, a professor of neuroscience at Massachusetts Institute of Technology. Wurtman wants the FDA to treat amino acids as drugs.

Meanwhile, scientists are struggling to find the cause of the mysterious disease afflicting people who took Showa Denko's L-tryptophan. "The plight of patients has driven us all in a race against time," says Esther Sternberg, a medical expert at the National Institute of Mental Health in Bethesda, Md. Sternberg has found that when rats of a certain strain are given impure L-tryptophan, they develop symptoms similar to those found in humans with eosinophilia-myalgia.

Some eosinophilia-myalgia patients suffer permanent damage, the result of long-lasting inflammation. They may develop scarring of the connective tissue surrounding muscle, and thus suffer from muscle pain and fatigue; others have permanent damage to the nerves or muscle. Although steroids may be useful in treating some of the initial inflammation that accompanies eosinophilia-myalgia, there are no known effective treatments for the later stages of the disease. "We don't know what's going to happen tomorrow," says Marguerite Vitolo, a freelance writer in New York City who has the illness.

Some researchers believe significant amounts of the impurity may have appeared after Showa Denko used recombinant DNA technology to genetically engineer a new version of bacteria to make the L-tryptophan. That may have produced greater amounts of acetaldehyde, which reacts with L-tryptophan to form the impurity implicated in the illness. At the same time, the firm changed its purification process. Researchers contend that if the FDA had been monitoring changes in Showa Denko's manufacturing process, the regulators could have caught the problem—if indeed this was the cause.

Researchers hope that what they learn about eosinophilia-myalgia will unlock mysteries of other diseases. "Understanding the mechanism of this will help our understanding of many other inflammatory and scarring diseases like rheumatoid arthritis and lupus," says Sternberg.

Could 31 deaths have been prevented? Maybe not. But much could have been done to reduce the likelihood of their happening. A good place to start would be for the FDA to start treating amino acids as the potent drugs they really are. ■

Drug or food?

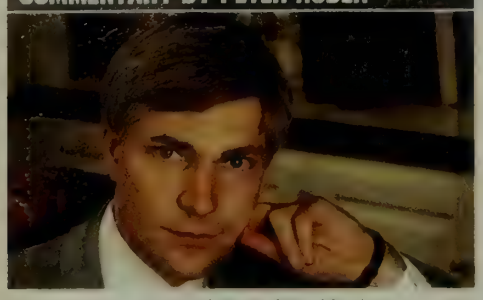
Amino acid	Why people buy it	A prescription version might
L-carnitine*	Treat muscular dystrophy, improve metabolism, etc.	Treat systemic carnitine deficiency
L-leucine, L-isoleucine and L-valine etc. (combination)	Promote healing, treat insomnia, control weight, etc.	Treat Lou Gehrig's disease, a form of paralysis
L-lysine	Treat herpes, etc.	
L-phenylalanine	Stimulate brain function, relieve depression, etc.	
L-threonine	Build up immune system, etc.	Treat spasticity, muscle strain
L-tyrosine	Improve glandular function, treat insomnia, depression, etc.	Increase vigor, with other drugs safely suppress appetite, treat depression, narcolepsy
L-tryptophan	Treat insomnia, depression, premenstrual syndrome, hyperactivity in children	Treat insomnia, depression, pain, suppress appetite

*Already marketed as a drug. *Sources: Richard L. Wurtman, Massachusetts Institute of Technology; U.S. Department of Health & Human Services.*

You can buy these amino acids—except L-tryptophan—at your local health food store. But beware: They don't come with any legitimate medical claims.

Pork rinds versus broccoli

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of the forthcoming *Galileo's Revenge: Junk Science in the Courtroom* (Basic Books, September 1991).

THIS COLUMN is 94% fat-free. Only 1 word in 17 has any greasy, cloying tendency to clog the thought channels of your mind.

If FORBES readers devoured this magazine literally rather than figuratively, I would now be in deep trouble. Various guardians of the public interest, from the Food & Drug Administration on down, are in the middle of a great public writhe about labeling—food labels, cigarette labels, labels on HIV-positive dentists, you name it. In California almost everything is now labeled carcinogenic or worse; a pregnant woman cannot order a gin fizz without being verbally assaulted by her waiter.

Good labels are undoubtedly an excellent thing. Fair warning beforehand, coupled with firm rules of individual responsibility thereafter, would do wonders to eliminate the after-the-calamity legal quagmires that now engage so much of our national energy. Better that the government mandate disclosures about fabrics or securities than attempt to choose which are good enough for us to buy. Still, one wonders whether today's more zealous label police are doing us any real good.

Start with fat. Ours is, without doubt, the land of the well rested and portly, of chubby masses yearning to be fat-free. So the label police have declared that fat content should be advertised as a percent of calories, not as a percent of the weight.

At first blush, this kind of labeling seems to be in line with what nutritionists are advising today: Get your calories from carbohydrates rather than from fat. But then, fat as a percentage of calories in any given pork rind is far less important than rinds as a percentage of calories in any given diet. The ratio of rinds to broccoli matters much more than does the fattiness of the occasional rind. Total calories are more important still. But of course it's impossible for anyone but me to regulate my annual tonnage of rinds plus broccoli, so the label constabulary sets out, instead, to monitor fat by the bite.

Meanwhile, other label censors have made quite sure that no one who buys a McDonald's shake should ever hear mention of milk or ice cream. After all, the consumer who thinks he's getting something from a cow has a right to his full ration of honest butterfat.

In another battle now raging, the label police are vehemently demanding that food irradiated to kill bacteria must prominently display the word "radiation," to scare consumers away from products that are in fact just healthfully free of both radiation and harmful bacteria. And headed for the Supreme Court this fall is a case that will decide whether the federally prescribed warning label on cigarettes cuts off state courts' power to impose liability for inadequate warning. Expect here a raft of arguments that the labels aren't graphic enough or are typed too small, or are undercut by the mesmerizing eloquence of the Marlboro Man. This debate is in fact sublimely irrelevant; who cares what the Marlboro Man says when both your doctor and your mother have been nagging about your smoking for the last 27 years?

Then there's the emotion-charge controversy about whether your HIV positive dentist should wear a label that effect. Anyone who has followe this story knows that the risk of catch ing AIDS from unprotected flossing minuscule but—as tragically reveale in Florida—nonetheless real.

In a rational world, we'd do noth ing: There are much more serio risks to worry about, and far bett places to spend our risk-control do lars. But the peddlers of national pan noia—the people behind the Alar te ror, the near-destruction of the Ch ean grape industry and Californi preposterous labeling laws—have h bituated us to responding with wil irrational excess to trivial but we hyped risks.

No doubt people who buy irradia ed food have a right to know wh they're buying (clean food), just those who buy cigarettes have a rig to know what they're buying (dir air). And certainly any patient w cares to ask his dentist is entitled to honest answer about HIV stat Across the board, honest labels, or the very least honest answers, are good thing, and we can probably u some measure of government help encourage them. But label zeal have a unique capacity to push ev good things over the edge. Perha the AIDS tragedy will teach us at l that bellowing wolf at the appearan of every mouse is expensive and ul mately harmful to all.

So what should we do? We shou leave the doctor-patient relationsh alone; if the patient wants to assert h "right to know," all he has to do ask. Put a final end to the cigaret labeling debate; the facts are ou there's nothing more to disclose. A let the constant drumbeat of "lo fat" advertising continue: Only co mercial America has the resources remind people day and night that th is beautiful.

It is a reasonably safe bet that ou right falsehood, like blank silence, c cause harm if it relates to anythin that is important. But when the lab police resolve to draw fine lines b tween shades of wording, or set o on great crusades to publicize ris that are tiny or nonexistent, it is th themselves who become the publ nuisance. ■

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On a hill beside an old monastery in the south of France, some high-powered people are reduced to talking like 2-year-olds.

An awkward cocktail party

By John Marcom Jr.

Photographs by Susan May Tell/SABA

Students on a field trip to a nearby vineyard, Château de Boussarges
But no break from total immersion—French only, please.

NO MATTER how good your teacher, occasional evening lessons are a frustrating way to learn a foreign language. And when practice is limited to the occasional exchange with a waiter or taxi driver, real confidence can be years in coming. So I decided to turbocharge my French study and headed for a place called Céran.

The school, set on a hill beside an old monastery amid charming vineyards halfway between Lyon and Marseille, promises the maximum progress in the minimum time. Each week begins with a cocktail party, made awkward by the immediate imposition of the school policy of total immersion in the language you're studying. "Where . . . do . . . you . . . live?" venture the bravest. With widely varying abilities among the new arrivals, any conversation soon comes to an embarrassing halt.

The classes early Monday morning come as a shock to the system. Forget conjugating the subjunctive of irregular verbs. The emphasis is on being active. Listen to the teacher, mimic his or her words, and answer back. Again and again.

"Did I learn a lot of French?" muses Nicola Smyth, an Irish pharmaceuticals researcher. "No, but I repeated a lot." More seriously, she says, she learned a great deal more than expected—and "was absolutely delighted that nobody taught m grammar."

Fees at privately owned Céran sta at $1,420 for a standard five-day sta including 34 language lessons an laboratory sessions. They top out at around $3,800 for a week of a private lessons. The school was star ed 16 years ago in Belgium by tw enterprising teachers, Monique an René Bastin, who had previous taught French in Africa. Business h nearly tripled in the past five years; la year more than 3,000 people, most adults sponsored by their employer came to Céran to study one of fiv languages.

Courses in English, French, Dutch Spanish and German are offered centers near the Belgian town of Sp in the Ardennes. At the Provenc school, where only French is taugh Germans are this year the best-repr sented nationality (the German Fo eign Ministry is a big customer), fo lowed by Americans, Britons an Spaniards.

The group during my fortnight i July numbered 32, somewhat belo capacity. It included a Spanish eng neer, a German agronomist preparin to work in the Ivory Coast, a Dutch T journalist, a Belgian software sale woman, a Japanese banker en route t business school in France and a Sco tish architect working in Paris after recent cross-channel merger of h firm. There were also a couple American executives recently tran ferred to Europe. Most already spok at least one language other than the own but decided they needed Frenc for business.

Classes are kept to five or eve fewer, making it difficult to day dream. "You can't just sit back," sa Caroline Lesieur, who before teach ing at Céran taught English to chi dren and music to adults. Teache employ various forms of raw mater al—the previous evening's TV nev for one session, short stories prepare by students for another, whatever yo might wish for private lessons.

It takes a day or two just to get th hang of the method, which is wh teachers think a week's stay isn enough for the first-time visitor. F those knowing no French at all, teach ers reckon it would take at least thre to four weeks to make significa

n, in Provence between Lyon and Marseilles
rammar lessons, but no picnic, either.

gress.

rmando Castillo, a 49-year-old v York native, recently moved to neva with RJR Nabisco to take rge of the company's tobacco iness in Africa. He figures his two ks at Céran boosted his compre-sion of spoken French 30%, and ks his ability to read gained 20%. didn't come out expecting to speak Mitterand," he says, "but I met objectives."

Going into Céran, I had studied nch grammar pretty thoroughly, uding the dreaded subjunctive, could read newspapers fairly well. ming out after two weeks, I can v understand conversational nch at ordinary speeds, instead of careful pace favored by patient guage teachers. That's important helping me converse on the phone l in meetings. Céran's lessons ped me learn more of the contrac-ns, shortcuts and colloquialisms d by real people—stuff you don't in textbooks. With a third week, I ght even be able to write this article a French magazine.

The surroundings add considerable asure to the Céran experience, at st after the first wrenching day or o. You are marooned deep in ance, with a largely sociable group people from all over the world. The tside can only intrude to the extent u can decipher the French televi-sion news that is required viewing after dinner each evening.

Dress is casual, and during free hours students are encouraged to unwind by the pool or on one of the two tennis courts. A self-service bar is open until 10:30 p.m.

The food? A cut above institutional quality, with plenty of variety. Accommodations are comfortable, the only monastic touch being the twin beds. A single room—at an extra charge of $270 a week—is essential unless you are coming with a very intimate acquaintance.

On weekends, when no classes are held, students can stay at Céran at additional charge, but there's no lunch or dinner service. There are points of interest in every direction: medieval villages, the scenic gorge of the Ardeche river, famous vineyards such as Châteauneuf-du-Pape and Gigondas. Nîmes, Arles and Avignon are each about an hour away. The region is home to a good number of Michelin-starred restaurants, and several stylish hotels. Try Le Vieux Castillon, a discreet fantasy of a hotel built from a group of medieval houses in an otherwise untouched Provençal village (011-33-66-37-00-77, rooms from about $100).

Two weeks at Céran Provence, with a single room and one round of eight private lessons, comes to about $4,100, 76 lessons in all. Eighty lessons at a good private school such as Berlitz in New York would run very nearly the same amount (at up to $50 per). But Berlitz doesn't offer accommodations, meals, wine, ambiance, or awkward cocktail parties.

Contact: Céran Langues Provence, Monastère Saint-Pancrace, F-30130 Pont-Saint-Esprit, France; 011-33-66-90-33-66; fax 011-33-66-90-33-69. Or contact Linguagency, North Haven, Conn., 203-287-1699; fax 203-284-1827.

Instructor Philippe-Pierre Darras and typically small class
French at the speed the French speak it.

About the only thing to do with a pen these days is sign your name. So why not sign with style?

Power pens

By Christie Brown

"IT'S ONE-UPMANSHIP in the boardroom," says New York pen dealer Jac Zagoory, explaining the recent revival of fountain pens.

Ten years or so ago old fountain pens were a staple at flea markets and garage sales, where $100 would get you any pen sold. Even a sack of them. But in the last few years penmakers like Waterman, Parker and Montblanc have successfully brought back the fountain pen as a luxury item. As has happened with expensive watches, the success of new premium pens is creating interest in old pens, many of which are finding their way back into the pockets of executives.

Prices for many new pens range from $200 to $500; old versions c from $15 up into the thousands. T record: a silver Parker "Swastil fountain pen made around 19 which was sold in August $28,000. Only last February the sa pen changed hands for $8,000.

What counts? Rarity, conditi color and size. To collectors, pla pens are often more valuable th gold or silver. And as a rule brighter and bigger the pen, the m collectors will pay. Key brand nam Waterman, Parker, Sheaffer, Mo blanc and Wahl-Eversharp.

Such a fast-rising market has perils. American auction houses h yet to hold a major sale of pe Europe has already seen the mar peak, collapse and build again. In late 1970s Christie's began hold regular auctions of fountain pens their South Kensington, Lond sales room. But in 1980 "the coll tor excitement just died, the mar dried up," says Christie's pen spec ist, Michael Pritchard.

Now it's back. Buoyed by Am can collectors, Christie's restarted London fountain pen auctions 1990; the next is Nov. 19.

The fountain pen as we know was invented in 1883 by Lewis W terman, a New York insurance sa man who lost a client when his pen ruined a contract. Waterman out to make a more reliable pen, started the Ideal Pen Co., which la became the L.E. Waterman Co. S cess came quickly. The pens, made hard rubber, were guaranteed endorsed by the likes of Oliver W dell Holmes.

Hundreds of pen companies spr up over the next 30 years. In the m 1920s pen manufacturers started ing plastics, which could be dyed bright colors that were often mar ized. Most sold for $2 to $10. luxury end included pens in sil gold and mother-of-pearl, costing to $250. But the introduction of ballpoint pen in 1945 decimated industry. Fountain pens were rele ed to the back of desk drawers. four biggest companies were even ally sold off, too. Wahl-Eversharp bought in 1957 by Parker, which turn was sold to a group of Bri investors. Waterman is now owned Gillette, and Sheaffer by an inv

Jeffrey Lowe

Don Schneider and some of his collection of 100 old fountain pens
He spurned $25,000 for one. "I guess I didn't need the money that day."

nt group called Gefinor. Montblanc, started in mburg, Germany in 08, had relatively few nerican customers until ently. It is now owned Britain's Dunhill.

Don Schneider, owner of ison, N.J-based Maxam terprises, an electronics lustry consulting firm, gularly ruins shirts and ts with leaky pens. That sn't stopped him from llecting 100 of them, ting from 1890 to the e 1940s.

Over the last four years hneider has spent as little $10 for a "Big Red" rker pencil from the 20s and as much as 5,000 for an early 1900s rker "Snake" pen, made black rubber overlaid th gold snakes. Fewer an 100 pens with the snake design e thought to exist, and collectors ve the design. Schneider claims he s already turned down a $25,000 fer for the pen from a Far East llector. "I guess I didn't need the oney that day," he shrugs, "and aybe it will be worth more."

Schneider, 48, likes to buy the odern models of his old fountain ns for comparison. For example, rker recently reissued the "Duo-ld" pen, popular during the 1920s d 1930s. Schneider bought a new ack one for $250. He carries it ound with a 1920s blue Duofold for hich he paid $1,500.

Edward Santone

Stanley Marx with a favorite, a Cartier pencil watch

"Pens have no intrinsic value. They're overpriced."

Antique pens are not always worth more than their modern versions, however. Waterman, Parker and Montblanc all tout new luxury gold pens priced between $6,000 and $8,000. Yet solid gold pens made in the 1910s and 1920s by the same companies can easily be found for $1,500 or less. And there is very little difference in function, although the modern versions are much less prone to leak.

Schneider has picked up his finds all over the world on business travels, finding old Parkers and Watermans at antique shops in New York, San Diego, Hong Kong, Shanghai and Kuala Lumpur. "It fills in the t between meetings," sa Schneider. During conferences he gets a kick out of pulling out an eye-catching old pen. "It breaks the ice, he says,"and can turn a meeting to my advantage."

Stanley Marx, 34, is another avid collector. A real estate appraiser in New York and president of a family-owned business that runs coin-operated laundry machines in Manhattan and Brooklyn apartment buildings, Marx started collecting old pens at flea markets when he was a child. After starting by buying bags full of old Parkers for $10, he now pays up to $1,500 for individual pens. His collection today numbers about 200 pens.

Marx prefers to trade, however, scoffing at the exorbitant prices being paid for fountain pens by some collectors today. "Pens have no intrinsic value," he says, "they're just cylinders with rubber sacs. They've gotten too overpriced."

If you're interested in old fountain pens and their values, World Publications, in Kingwood, Tex., publishes an annual price guide, as well as *Pen World* and *PenFinder*, both bimonthly publications. Glen Bowen, owner of World Publications, also appraises pens: $25 for up to six pens. No need to mail the pens; just mail a photograph of them to World Publications, 2240 North Park Drive, Kingwood, Tex. 77339.

If your pen needs repairs, most dealers can help. There is also the Fountain Pen Hospital in New York City, the largest pen dealer and repair shop in the country, which can also replace original nibs if needed. Nibs for better pens have always been made of 14-karat gold and are not interchangeable among models or brands. Large nibs will cost about $70 at the Pen Hospital, smaller nibs less. A general overhaul and cleaning will run about $30.

About 100 pen dealers will be exhibiting pens at the Headquarters Plaza Hotel in Morristown, N.J., on Oct. 19 and 20.

rker Duofolds: old version (top) $1,500, new one: $250

ut some old pens are cheaper than newer, revived models.

Lots of successful managers, among others, think buying a franchise is the easiest way to financial independence. In many ways, it is the most difficult.

Franchise hell

By Richard L. Stern and Reed Abelson

AT 55, you're a successful and energetic manager and have had your fill of corporate bureaucratic life. You decide to retire early and buy a franchise. Perfect. You'll be your own boss, make a decent income, maybe bring the kids into the business and build it into something significant.

Now for a dose of franchise reality from Stephen Sherwood, former owner of six TCBY Enterprises, Inc. frozen yogurt stores around Kalamazoo, Mich. His stores were among the many forced out because of fierce competition in the yogurt business. Sherwood claims TCBY failed to respond to a changing market with a wider product line and wouldn't lower the price of the yogurt it sells to its franchisees in the face of cheaper and "better" product by competitors. "Franchising," says Sherwood, sadly, "can be another form of servitude."

Layne Kennedy

Del Blaske, 44, owns 22 franchised Burger King outlets in Minnesota. Last year he was diagnosed with a terminal liver disease and decided to sell out. Asking price: $14 million to $15 million. Burger King offered only $3.5 million. The banks refused to renew a line of credit, and Blaske says Burger King kept others from buying his stores. In January he filed for Chapter 11. Now he's suing. Burger King denies the allegations.

Yet servants are lining up. Franchise trade show attendance is up by around 20% over the last two years. The International Franchise Association reports a nearly 10% increase last year in franchise outlets, sold by more than 3,000 franchisors. Highly confident of their entrepreneurial abilities, more than half of new franchisees now use the equity in their homes as collateral on loans to buy franchises.

How does the typical franchise work out? Rupert Barkoff, chairman of the American Bar Association's franchising committee, estimates that for the typical chain only a third of franchises do well, a third break even and a third are losing money. Meanwhile, the American Arbitration Association reports a 16% jump in disputes between franchisees and franchisors for 1990 over 1989 and a sixfold increase since 1980.

Ideally, the interests of franchisor and franchisee are one and the same: The better the franchisees do, the more revenue the parent organization makes. But business life rarely follows the ideal; the franchise business is rife with potential and real conflicts of interest. "The image of big, happy franchise families is nonsense," says J. Michael Dady, an attorney who represents franchisees for the Minneapol firm of Lindquist & Vennum.

The upfront fee from a new store a big revenue and profit generator f franchisors. To close a deal, franchi salespeople (who mostly work commission) sometimes yield to t temptation to exaggerate a franchise potential. Employment agency fra chisor Snelling & Snelling and vid rental chain franchisor West Coa Video Enterprises have recently be accused of making inflated reven and profit projections. The franch sors deny the allegations.

Another classic conflict com about when franchisors boost the own profits but hurt franchisees running promotional sales in whi the store owner bears the expense f the lower prices. TCBY, which se yogurt to its franchisees, recently o fered a 99-cent Sundette, cutting b into store owner margins. Boosts store traffic went right to the franch sor's bottom line because it sold mo yogurt. And Burger King, which se supplies directly to its stores, recent advertised a double whopper for cents when you bought one for t

The Entré Computer franchise, with more than 150 franchised outlets operating nationwide, is owned by Intelligent Electronic (FORBES, *June 10*). Intelligent Electronics sees its future in con puter superstores. "What will this do to my business?" wonder Brian Everhart, a Lakeland, Fla. franchisee who invested $65,00 in his Entré outlet. "Intelligent Electronics hasn't helped me in years. They don't need me anymore."

mal $1.50. Bun and burger cost franchise owner 53 cents. Add in rhead and the promotion was a neyloser, says a franchisee.

robably the most basic conflict ween franchisee and franchisor ters on how many outlets there uld be in a particular market. Theitically, the franchisor cuts his own at if he overpopulates a market outlets. But it's hard to resist the ney to be made by selling new nchises and expanding the flow of alty income, even if the average let's revenues are imperiled.

xample: Almost 30% of publicly led Blockbuster Entertaiment's 08 million pretax earnings in 1990 e from the over $100,000 it got m each of 277 new stores it ened, according to James Chanos, oney manager who is selling short publicly traded stock. The compasays only about 20% of its earnings me from new stores. This year ckbuster plans to offer another 0 franchises, bringing the total mber of stores to 1,026. Is Blockster overdeveloping its markets? e company doesn't think so, but anos does. He points to slowing wth in same-store sales. In the last after, Blockbuster's same-store avge revenues crept up only 5%.

The best way a potential franchisee protect himself or herself against erexpansion by the franchisor is to arly delineate his territory's boundes in his franchise agreement. But s is no guarantee. For many years ntucky Fried Chicken granted its nchisees exclusive territories. But w the franchisor is canceling these clusives as franchisee agreements me up for periodic renewal.

When a franchisor gets in trouble—in the case of Al Copeland Enterises, which runs Popeyes Famous ied Chicken and Church's Fried hicken—franchisees can suddenly d it hard to raise bank financing.

Still interested in pursuing financial dependence by buying a franchise? ell and good. But do your due ligence. And don't forget this comonsense advice: Tastes change, and arkets become oversaturated beuse they are easy to get into. If you y a franchise and do well with it, ere's no harm in selling out and oving on.

Earl Dotter

Lelia Guilbert, of Torrance, Calif., joined a class-action suit against Diet Center Inc. after the franchisor was bought in a $160 million leveraged buyout in 1988. Guilbert alleges the new owners jacked up franchise fees, at a time of intense competition, to service their hefty debt. Four out of her five outlets—and hundreds of other Diet Center outlets—are now closed. The company rescinded the fee increase but also cut advertising. The new owners also threaten to take over closed franchises and resell them. Guilbert vows to fight on in court.

Thomas Crouman

Changing tastes and fierce competition in the frozen yogurt business have bankrupted many TCBY stores. Stephen Sherwood, whose six stores closed, blames TCBY for not introducing new products and for selling too many franchises. Though TCBY's earnings are collapsing, its chairman, Frank Hickingbotham, whose 38% of the company's stock is worth $66 million, last fall raised the dividend, increasing his dividend income by nearly $3 million a year.

Out of bankruptcy

UNDER THE HEALING touch of Chairman David Hoag, LTV Corp. is coming back to life. The steelmaker, which sought bankruptcy protection more than five years ago, may finally come out of Chapter 11 sometime next year—and do so as a vastly healthier company.

Because unions have little leverage against a bankrupt employer, Hoag, 52, has managed to slash employment by 35%. And Chapter 11 allowed LTV to stop pouring money into its prebankruptcy pension funds and to negotiate cheaper contracts for raw materials. LTV's operating costs are now 5% lower than its competitors'.

Hoag has closed or sold about 30 steel operations, reducing overall capacity by 60%. By modernizing plants and retraining workers he has improved productivity by 70%. And, with his creditors at bay, Hoag has poured LTV's cash flow into improving its plants and equipment, raising capital spending from $102 million in 1986 to $337 million last year.

In 1985 LTV produced steel, energy products and aerospace and defense equipment. Hoag has made the company primarily a producer of higher-priced, flat-rolled steel for automobiles, appliances and construction. By year-end, when Hoag expects to sell the aerospace and defense unit for some $450 million, 88% of LTV's sales will be in steel.

As the company prepares to emerge from bankruptcy at last, Hoag finds himself spending fully 50% of his time trying to appease a bickering swarm of stockholders, bondholders, banks, suppliers, more than 100 attorneys and the U.S. Pension Benefit Guarantee Corp., all of whom are seeking to maximize their claims against the company. But the intense Hoag was prepared. "I knew precisely what I was getting myself into," he says. "I did it because I thought I would never have a larger, greater challenge in my life." So far, he has not been disappointed. —TODDI GUTNER

LTV Corp. Chairman David Hoag
Man of steel.

Market-driven environmentalist

RICHARD SANDOR, who invented interest rate futures in the mid-1970s, is cooking up a financial instrument that may help change the air we breathe.

Sandor, a 49-year-old executive managing director at Kidder, Peabody & Co., is developing "clean-air allowance futures." Under last year's amendments to the Clean Air Act, the U.S. Environmental Protection Agency has established ceilings for sulfur dioxide, a pollutant emitted by utility power plants. Firms that pollute less than the legal limit will get credit allowances, which they can either "bank" for future use or sell to companies that do not meet the pollution standard. Futures on the allowances, which Sandor designed, would change hands at the Chicago Board of Trade. "What we have here," says Sandor, "is really a new type of commodity, a property right."

Richard Sandor of Kidder, Peabody
Pricing the cost of pollution.

The efficient market in "pollution rights" that Sandor hopes to help develop will enable utilities and other companies to price any harm they do to the environment. "I think being able to price what it costs to clean up somebody's mess is very important," says Sandor. "The idea here is to get the profit motive into the system for the greater social good."

Sandor, who became a full professor of finance at age 24 at the University of California at Berkeley, went on to become chief economist at the Chicago Board of Trade. While there he invented futures contracts on U.S. Treasury bonds, which became the world's most actively traded financial instruments. Before joining Kidder, Peabody this spring, Sandor headed Drexel Burnham Lambert's futures and high-grade fixed-income departments, then ran the futures operation at Banque Indosuez.

While he cautions that it may take at least five years, Sandor thinks the market for allowances underlying the pollution futures will eventually be huge—perhaps as large as $10 billion a year. Speaking as both a citizen and a futures expert, he says he hopes markets around the world will join Chicago in trading pollution futures, thereby helping companies everywhere establish the relative values of clean and dirty air and water.

nker by the hour

LL STREET'S reputation for greed es good marketing for Gordon nstall. A financier who targets his ices at smaller companies, Tun- has raised nearly $1 billion in t and equity so far this year for 75 nts.

Vhile most investment banks take lerwriting discounts of up to 5% bill multimillion-dollar "financial isory" fees, Tunstall Consulting, . charges hourly fees of $90 to 5, plus expenses. Thus Tunstall ms to lack any incentive to hype a l in order to collect a bigger com- sion, although he does of course e an incentive to work (and bill) g hours.

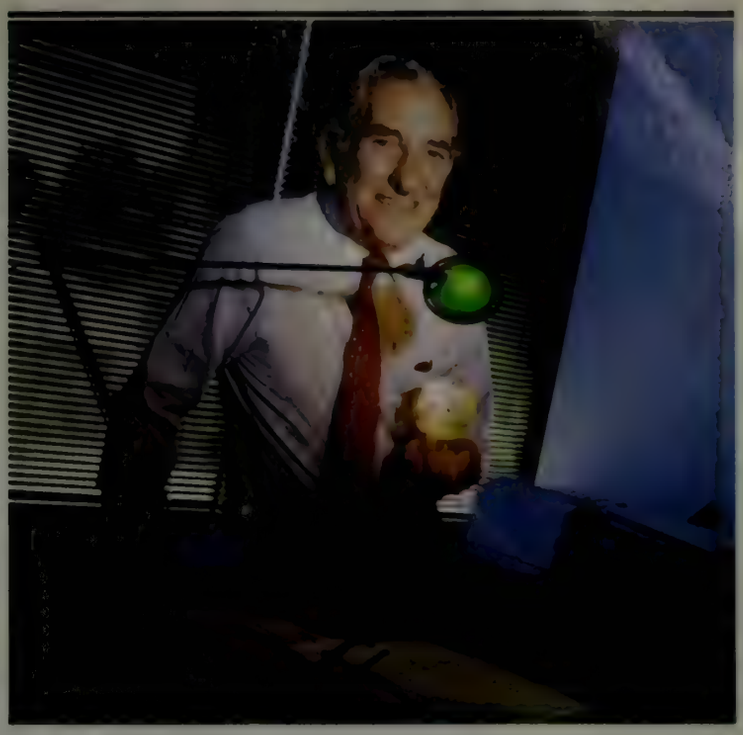
ome of his customers speak very hly of him. Take American Build- s Co., a Eufaula, Ala.-based maker prefabricated metal structures 90 sales, $140 million). The com- y hired Tunstall in 1989 to lighten 0 million in debt piled on in a 1986

ancier Gordon Tunstall
eaper by the hour?

eraged buyout financed by Kelso & . and PaineWebber. Roger Pritts, nerican Buildings' chief financial ficer, says he wishes he had known nstall at the time of the buyout. The investment bankers forced as gh a sales price as they thought the mpany could stand," says Pritts. "If 'd had [Tunstall] around, we uld not have paid as much for the company."

A former Coopers & Lybrand accountant, bank vice president and chief financial officer of an oil company, Tunstall, 47, founded his firm in Tampa in 1980. Without committing any of his firm's capital to underwritings, he has built a business that will earn $5 million this year. Says Michael Mears, who runs a $600 million private-placement portfolio at General Electric Investment Corp.: "The whole Tunstall concept is a breath of fresh air. He's not pawning off a good or bad deal and grabbing a fee and running. He's as close as one can get to the oxymoron 'honest broker.' "

–SETH LUBOVE



Alpha Lyracom's Rene Anselmo
New satellites over the Pacific.

Out to launch

MAVERICK satellite entrepreneur Rene Anselmo keeps breaking down barriers across the heavens. Three years ago, over the Atlantic, his Alpha Lyracom Space Communications, Inc. launched PanAmSat, the world's first privately owned international communications satellite. During the Gulf war Alpha Lyracom's business skyrocketed, with fresh demand from customers like CNN and ABC, which were desperate for a cheaper alternative to the international satellite consortium, Intelsat. Alpha Lyracom's cash flow this year should brush $15 million, on revenues of $28 million.

Anselmo plans to launch three satellites by 1995, bringing the same cheap access to Asia and Africa that he has been providing to Europe, North America and Latin America. Hughes Corp. will make the satellites for $300 million; Alpha Lyracom will launch and operate them. By 1994 the first satellite will be ready.

Anselmo hopes to save up to $150 million in launch costs by blasting off from the People's Republic of China, which can make up to nine launches for U.S. customers through 1995. A Congressional ban on such launches, imposed after the Tiananmen massacre, should be lifted soon.

On another front, Anselmo is in federal court, where he is alleging that Comsat, the U.S.' Intelsat affiliate, violated antitrust law with restraint-of-trade actions against Alpha Lyracom. "They're just like the Russian communists," he says of Comsat and the other state-run satellite monopolies around the globe. "Obsolete, but still fighting to hold on to their turf."

Win or lose in court, the 65-year-old Massachusetts native—who sold seven Spanish-language television stations in 1985 and 1986 for more than $100 million—hopes to conclude his 40-year broadcasting career with his biggest launch of all. Anselmo, sole owner of the company, says he expects to do an initial public offering of Alpha Lyracom right after his next three satellites are up and running.

–JOEL MILLMAN

Quality is Job 1

"If it's not tight, it's not right."

Peter Almanza, Body Prep Supervisor, Ford employee for 30 years.

Profile in Quality #23: Diligence

Before the paint, before the engine, before the interiors — Peter Almanza makes sure that every car body that leaves his area is tightened to its precise specification.

Peter is one of over 366,000 Ford people worldwide who are committed to making quality Job 1.

Our goal is to build the highest quality cars and trucks in the world.

Ford

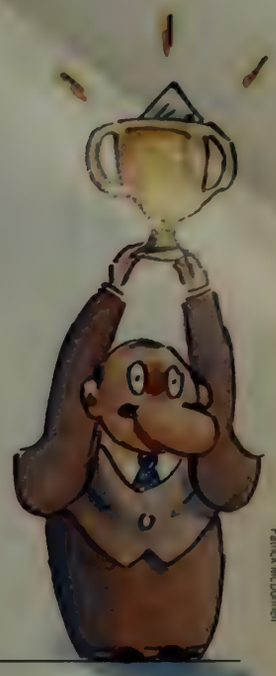
Ford Motor Company

FORD, MERCURY, LINCOLN, FORD TRUCKS

Buckle up — Together we can save lives.

Always insist on genuine Ford Motor Company collision repair p

Annual Fund Survey



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Do you spend too much time doing your tax returns? Would you have trouble identifying all your financial assets? Have you tended to lose money in stocks even in bull markets? Cure for these ailments: Buy mutual funds.

Using funds to unclutter your financial life

By William Baldwin

YOU MAY BE suffering from financial clutter. Among the symptoms of this disease: You have IRAs at different banks, maturing at different times. You have some inherited stock but have no idea what your tax basis is for the shares and aren't sure whether some of the certificates are missing. Your family has an assortment of U.S. Savings Bonds in odd amounts. Your taxes are a mess.

A lot of Americans suffer from clutter in their financial lives. Suffer needlessly, because a cure is at hand: funds. You can construct a well-diversified, excellently managed portfolio out of half a dozen mutual funds. Do it right, and you will shrink your pile of 1099 tax information returns to a simple few. Your stock funds will spare you running to the bank with $27 dividend checks. Your fixed-income funds will give you the higher returns offered on long-term bank CDs with all the liquidity of short-term bank accounts. You will get tax benefits: No-load mutual funds are an excellent vehicle for tax swaps.

Financial planners know clutteritis all too well because it often takes them months to cure a severe case. The typical patient has CDs at various banks because they are government-guaranteed and because the bricks and mortar seem so much more secure than a fund at the other end of an 800 line. "We jokingly say that you put everything in a shoebox," says Steven Enright, a planner in River Vale, N.J. "But often it wouldn't fit. You'd need a crate."

Enright describes one of his clients, a doctor: "He's approaching 60, with a portfolio valued in the millions. There were 26 individual accounts at brokers and mutual funds and banks, and 4 different checking accounts, exclusive of the practice. Plus he had real estate all over the place. There was no rhyme or reason. A broker would call and the doctor would say, 'Good idea. I'll buy some.' "

"I had a client who had so many different IRAs he had forgotten how many he had and where he had them," says Stephen Gorman, a planner with the Boston office of BDO Seidman Financial Services. "He also had a large chunk in a rollover account, $250,000. That was sitting in bank money fund for a year. Becau of the clutter he was forced to spend lot of time on the little pieces and h wasn't investing the big piece."

Why do people do this to them selves? Part of it is being sold. Sa Kurt Brouwer of Brouwer & Jan chowski, a San Francisco financial ad viser: "We had one guy with 30 cash value life insurance policies. He had hard time saying no." To this we sa Don't get sold; buy. Buy only th insurance you need, and don't make your prime repository for saving

Paul McGrane

Variable annuities can be an exception to this rule, but they are really more mutual funds than insurance; see the article on page 194.)

To alleviate or even cure your clutteritis, put your savings into funds, preferably those with little or no sales loads. You are almost always better off selecting no-load funds either on your own or with the help of a fee-paid planner than through a broker who will collect a commission on the sale. Focused fund investments will simplify your life: All the information you need for tax purposes will be neatly provided for you by the fund; all you have to do is file it carefully away.

This issue of FORBES is designed to help you make your own investment decisions through the simplifying medium of mutual funds. The honor roll on page 160 lists 20 stock funds that have delivered consistent performance over the past decade. There are also 10 lists of Best Buys in fixed-income, international and small-company categories. These funds have above-average performance and low costs as well. The Best Buy money funds are simply the lowest cost ones.

Here's another reason people go into retirement with a tangle of bank accounts and stock and bond certificates stashed here and there: fear of loss. You could call it the squirrel reflex. They bury a nut under this tree, another under that one, thinking that no catastrophe can wipe them out.

But people who clutter up their lives for this reason often accomplish little true diversification, while saddling themselves with huge risks that they scarcely see. Enright recalls a client with $1 million from rolling over a company thrift plan. This executive had parked the money in 12 bank CDs. Of course he was trying to take advantage of the $100,000-per-account government insurance—unaware, no doubt, that he could have accomplished the same effect with a single purchase of U.S. Treasury notes. The bigger mistake was this: Preoccupied with credit losses, he didn't think very clearly about another risk—inflation. If you leave your money in fixed-income investments and spend the interest, it takes only 23 years of 5% inflation to wipe out two-thirds of the purchasing power of your principal. A safer investment for this saver would have been a $1 million balanced fund. Read the story on page 204.

Here's another risk that people don't think about: the risk that they or their heirs will lose track of assets. People move and forget to tell transfer agents where to send their dividend checks. They die, having forgotten to tell relatives about the certificates left in the bottom drawer. Exxon says that it can't locate 6,000 of its 625,000 shareholders. If they don't put in claims in time, the uncashed dividend checks and the shares will be handed over to a state treasurer.

Some people have dozens of financial relationships out of a misguided notion about economizing. Says Joel Isaacson, partner in charge of financial planning at CPAs Weber Lipshie in New York: "I've seen people buy one share of 30 stocks to participate in the dividend reinvestment plan. They think they're a genius for saving a commission." Then they sell some shares and spend two days figuring out what their tax basis is.

Ironically enough, much financial clutter, and its painful effects on tax preparers' bills, can be traced to tax aversion. This character trait has driven many an investor into tax shelters, sometimes dozens of them. Shelters are distinguished for their thin payouts and fat K-1 forms that have to be tracked down and sent to tax accountants in April. How much better off buyers would have been putting the same money into no-load municipal bond funds.

The shelter industry is in abeyance now, but it will surely resurface someday, perhaps in a different guise (such as a complicated insurance product). Avoid the temptation to invest in a complicated tax shelter. If you want the thrill of saving on taxes, do it with funds. Money market funds that buy primarily U.S. government paper are often exempt from state tax, as explained on page 292. Funds that buy state and local bonds are exempt from federal tax on the dividends; a table of Best Buys in municipal bond funds appears on page 164. And if you divide your fund accounts between two no-load families, you will be able to turn paper losses into tax losses, via the tax swap.

Here's how a swap works. Suppose you put $50,000 into a Vanguard municipal bond fund, interest rates spike up, and your fund's shares drop in value to $47,000. Sell, to realize a deductible $3,000 loss. Immediately buy $47,000 worth of a similar fund in, say, the Fidelity family. You remain fully invested, and don't miss out if the bonds rally. But, since the funds are not identical, you don't fall into a "wash sale" tax trap that would disqualify the deduction.

Of course, funds are useful for things other than just curing clutteritis. They do wonders for cases of congenital underperformance. Sufferers from this disease have done some trading in stocks, but find themselves buying the wrong ones at the right time and the right ones at the wrong time. They can't seem to make much money even in bull markets. A well-managed mutual fund ought at least to keep up with the market, and the management fees will cost you a lot less than brokerage commissions from constant, futile trading.

But don't let your portfolio of funds get too cluttered. It is an unusual investor who really needs more than half a dozen funds to build a well-diversified portfolio. If your chosen funds are from more than two families, consider consolidating them in a discount brokerage account. Charles Schwab, for instance, offers this service. Cut the paperwork. Spend your free time on the beach. Or working to improve your job performance. ■

This list of the best-performing stock funds is not a mere ranking of straight-line performance. To make the honor roll a fund must demonstrate consistency of results and strength in bear markets.

The honor roll

By Steve Kichen

THE SIMPLEST WAY to rate funds is by percentage gains over some past period. That's what most mutual fund surveys do. Simple, sure, but more than a little deceptive. The implication is that if a fund was up 15% a year in the past, it's likely to do 15% a year in the future. That implication is wrong. It's a little like saying that the most likely winner of the 1991 World Series will be the Cincinnati Reds, since they won last year. That catchphrase of fund prospectuses, "Past performance is no guarantee of future results," is an understatement. Past performance is only a weak indicator of future results. You can usually bet that this year's hot performer will be next year's laggard.

What, then, should you look for in judging a fund's performance if not a raw percentage? Our honor roll looks at three other factors: consistency, risk and continuity.

Consistency is built into the grades we award sto funds. We divide the measurement period into thr market cycles so we can evaluate a fund separately in bu and bear markets. Stock funds are rated in the tab beginning on page 211 for performance over as few as tw market cycles, but the honor roll is limited to funds th have been around for the full three. The grading formu calls for something more than a simple average of retur over the three ups or the three downs. Unusually stron (or weak) performance in any given period is scaled ba (or up), because it is unlikely to be repeated. Gold funds the late 1970s, technology funds in 1982-83 and, recen ly, health care funds—all have had winning streaks. In o rating system those streaks count for less than they wou in any system that measures straight-line performance ov

Fund/distributor	Performance UP markets	Performance DOWN markets	Lead manager (years)	Average annual total return[1]	Hypothetic investmen results[2]
Bergstrom Capital/closed-end	A	A	Erik E Bergstrom (15)	19.2%	$51,258
Dodge & Cox Stock Fund/Dodge & Cox	A	B	Multiple managers (10)[7]	15.1	34,457
Fidelity Destiny Portfolio I/Fidelity Distributors	A+	B	George Vanderheiden (11)	18.3	36,841
Franklin Growth Fund/Franklin Distributors	B	B	Jerry Palmieri (26)	14.7	37,320
Fundamental Investors/American Funds Group	A	B	Multiple managers (7)[7]	15.6	33,154
Guardian Park Ave Fund/Guardian Investor Services	A	B	Charles Albers (19)	15.7	31,809
IAI Regional Fund/IAI Funds	A	B	Julian P Carlin (11)	16.0	35,024
Investment Co of America/American Funds Group	B	B	Multiple managers (8)[7]	15.9	32,526
Lindner Fund/Lindner Management	D	A+	Robert A Lange, Eric E Ryback (10)	16.8	37,458
Mutual Benefit Fund/Mutual Benefit Financial Service Co	A	B	Multiple managers (7)[7]	15.9	34,367
New England Growth Fund/TNE Fund Group	A	B	G Kenneth Heebner (15)	18.0	41,307
Nicholas Fund/Nicholas Co	B	A	Albert O Nicholas (22)	16.2	39,780
Phoenix Growth Fund/Phoenix Equity Planning	A	A	Robert Chesek (11)	18.3	42,236
T Rowe Price International Stock Fund/T Rowe Price Associates	B[9]	B[9]	Martin G Wade (11)	20.4[10]	33,503
Scudder International Fund/Scudder Investor Services	C[9]	B[9]	Nicholas Bratt (7)	20.4[10]	32,209
Selected American Shares/Kemper Securities Group	C	A	Donald A Yacktman (8)	15.5	34,334
Shearson Appreciation Fund[11]/Shearson Lehman Brothers	B	B	Harold L Williamson Jr, Harry D Cohen (9)[7]	15.0	36,152
Source Capital/closed-end	D	A+	George Michaelis (13)	15.6	32,037
United Income Fund/Waddell & Reed	A	A	Russell E Thompson (12)	17.7	36,247
Washington Mutual Investors/American Funds Group	B	A	Multiple managers (8)[7]	16.9	36,424

[1]From 11/30/80 through 6/30/91, before deducting loads and taxes. [2]Value on 6/30/91 of $10,000 invested 11/30/80, after load and taxes, for hypothetic upper-income investor. Assumptions: Investor has $100,000 of gross income in constant 1984 dollars, deductions equal to 20% of income – 15% after 1986– and four exemptions. Loads applied at 6/30/91 rate. [3]Average of price/earnings ratios for stocks in portfolio as of 3/31/91, weighted by size of holding. Source: CD Investment Technologies. [4]Lesser of security sales or purchases, divided by average net assets. [5]Most funds have lower minimum requirements for IRAs an automatic savings plans. [6]Closed-end funds have no loads, but hypothetical results column assumes a 1% brokerage fee to buy shares. [7]Average tenure managers, with ten years maximum credit for each. [8]Operates as a contractual plan, requiring monthly investment, with a decreasing load for larger investmen

or ten years. Further reinforcing that sistency requirement, we exclude sector ds, which can do well by dumb luck—if ir sector is hot.

To sum up: We don't dish up raw num-s. We mix in a substantial element of gment.

Next, we rate risk. The honor roll is ited to funds that earn B or better in bear rkets. There is no minimum for up-rket grades. Lindner Fund, for example, s an up-market D but a down-market . Why so much focus on bear market formance? It's a way of excluding funds t did well in the 1980s not so much from skillful stock king as from taking aggressive or leveraged positions. member that the 10½-year measurement period has n a freakishly good one, in which the S&P 500 returned average 14.2% a year. The emphasis on bear market des makes up for the fact that the 1990s are likely to ng longer or more severe bear markets than we experi-ced in the recent past.

Finally, we rank funds on continuity. We limit the honor l to funds whose managers have served in that position at least seven years. Last year that rule forced us to drop lelity Magellan, which had been on eight previous nor rolls. Morris Smith has done a fine job at Magellan ce taking over from Peter Lynch last year. Over the 12

months ended June 30 Magellan had a total return of 9.7%—better than the 6% return for the average stock fund in this survey. But this snapshot doesn't tell us how well Smith could guide the fund in a bear market. It doesn't give him a chance to prove any consistency of performance. In contrast, the Mutual Benefit Fund qualifies by dint of the long-tenured talent on its stock picking committee—never mind that its insurance company sponsor has been seized by New Jersey regulators.

A lot of funds have been around for three full market cycles, do better than the pack in bear markets and have had the same management for at least seven years. Out of this group we select the 20 best in long-term performance. Those results, labeled "Hypothetical investment results" below, measure what a $10,000 investment would have turned into over the three market cycles, after deductions for taxes and sales load. One more requirement: The fund must be open to new customers. That rules out the Vanguard Windsor Fund, CGM Capital Development Fund and two Mutual Series funds.

Getting on the Forbes honor roll is tough. The rules are demanding. Stock funds that don't meet these criteria, and fixed-income funds in various categories, still have a shot at the Best Buy rankings, where low cost counts heavily in the score. See pages 162, 164, 174, 198, 204, 292 and 293.

Net assets ($mil)	Maximum load	Annual expenses per $100	Weighted average P/E[3]	% of assets in cash	Portfolio turnover[4]	Minimum initial investment[5]	Fund (consecutive years on honor roll)
589	NA[6]	$0.99	25	8%	10%	NA	Bergstrom Capital (8)
239	none	0.65	15	4	7	$2,500	Dodge & Cox Stock Fund (2)
2,024	NA[6]	0.44	17	0	71	NA	Fidelity Destiny Portfolio I (9)
275	4.00%	0.73	18	27	6	100	Franklin Growth Fund (3)
965	5.75	*0.70*	20	16	12	250	Fundamental Investors
259	4.50	0.67	15	8	47	1,000	Guardian Park Ave Fund (4)
325	none	*1.01*	22	23	169	5,000	IAI Regional Fund (3)
7,643	5.75	*0.55*	17	19	11	250	Investment Co of America (2)
783	none	0.83	16	13	13	2,000	Lindner Fund (3)
42	4.75	1.01	14	16	6	250	Mutual Benefit Fund (3)
734	6.50	*1.23*	27	0	185	1,000	New England Growth Fund (7)
1,715	none	0.81	16	9	22	500	Nicholas Fund (10)
977	4.75	*1.08*	23	22	275	500	Phoenix Growth Fund (3)
1,291	none	1.12	17	9	47	2,500	T Rowe Price International Stock (2)
899	none	1.17	22	9	70	1,000	Scudder International Fund
557	none	*1.10*	19	10	46	1,000	Selected American Shares (3)
1,410	5.00	0.84	18	11	30	500	Shearson Appreciation Fund (6)
304	NA[6]	0.97	17	20	43	NA	Source Capital (3)
1,894	8.50	0.67	16	4	31	500	United Income Fund (3)
6,792	5.75	*0.77*	16	4	11	250	Washington Mutual Investors (2)

contracts. Hypothetical investment result assumes a single investment of $10,000 on 11/30/80, with a simulated load of 12.4%. This load reflects both sales and account maintenance charges. [9]Grades for foreign funds depend on long-term performance against other foreign funds. [10]Average annual total return covers period from 9/30/82 to 6/30/91, the time span used to measure the performance of foreign stock funds. Hypothetical return is measured over the same period as domestic stock funds. [11]Formerly SLH Appreciation Fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* NA: Not available or not applicable.

Best Buys

The honor roll on page 160 focuses on performance. Our Best Buys selections here and on page 164 also look at performance but give equal weighting to price. By price we mean the money taken out of your pot by the fund's sponsor, either in a one-time sales load (which we assume is spread over five years) or in the annual expense ratio. Funds are scored on each factor, and the scores are added to give a combined rank; funds are listed in the Best Buys tables in descending order of this rank. Funds are penalized in the price calculation for temporary absorption of expenses and in the performance calculation for volatility. The Best Buys money funds, pages 292 and 293, are selected solely by expense ratio.

Taxable bond funds

How do you find a good bond fund? First decide how far out on the yield curve you want to stick your neck. Short-term funds will be damaged the least if interest rates rise; long-term funds will do better if rates stay constant or fall. Ginnie Mae funds are somewhere in between in their sensitivity to interest rate fluctuations. Next, look at price and performance. In these rankings, the two elements are given equal weight. (Note that only one load fund makes the list.) The Best Buys ranking of junk bond funds appears on page 174.

Fund/distributor	5-year total return annualized	Risk level	Manager (years)	Annual expenses per $100	Maximum sales charge	Assets 6/30/91 ($mil)
Short-term						
Vanguard Fixed Income–Short-Term/Vanguard	8.3%	very low	Ian MacKinnon (9)	$0.31	none	$1,143
Federated Short-Intermediate Govt/Federated	7.7	very low	Roger A Early (4)	0.48	none	1,220
Federated Intermediate Government/Federated	7.9	low	Roger A Early (4)	0.51	none	740
T Rowe Price Short-Term Bond Fund/Price	7.1	very low	Edward A Taber III (7)	0.93	none	217
Long-term						
Federated Income Trust/Federated	9.1	low	Gary J Madich (4)	0.50	none	987
USAA Mutual–Income Fund/USAA	9.8	high	John W Saunders Jr (6)	0.46	none	656
Value Line US Government Securities/Value Line	8.8	low	Not disclosed	0.66	none	311
Transamerica Income Shares/closed-end	10.2	high	Multiple managers (10)[1]	0.69	none	122
Montgomery Street Income Securities/closed-end	8.7	average	Steve Wohler (4)	0.68	none	149
Columbia Fixed Income Securities/Columbia	8.7	average	Multiple managers (8)[1]	0.68	none	164
Ginnie Mae						
Federated GNMA Trust/Federated	9.7	high	Gary J Madich (4)	0.52	none	1,288
Vanguard Fixed Income–GNMA/Vanguard	9.6	high	Paul Sullivan (11)	0.34	none	3,564
Benham GNMA Income/Benham	9.5	high	Randall Merk (4)	0.72	none	495
Franklin US Government Securities Fund/Franklin	9.5	low	Jack Lemein (7)	0.52	4.00%	11,810
AARP Income Trust–GNMA & US Treasury/Scudder	8.4	low	David Glenn (6)	0.79	none	2,942
Fidelity Ginnie Mae/Fidelity	8.8	average	James R Wolfson (3)	0.80	none	776

[1]Average tenure of managers, with ten years maximum credit for each.

You may have to find a new breed of chauffeur.

True, the Turbo R owner is driven. But not by hauffeur. By a need—to excel. Which explains his oice of motor car. The one AutoCar & Motor *calls n outrageous concoction of sledgehammer perfor-ance and sybaritic luxury."*

Sledgehammer performance, in Bentley terms, eans a turbocharged 6.75 er V8 whose Herculean rque makes turbo lag obsolete. It eans 5300 pounds of steel sculpture sprinting from rest to 60 m.p.h. in but 6.8 seconds.

Sybaritic luxury means you loaf along at unmentionable speeds in a coach that takes Rolls-Royce Motor Cars 100 days to hand-build. Atop a suspension that follows your every whim. In a cabin with enough Connolly hide to carpet a 10 ft. by 26 ft. room.

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Have You Flown The Bentley Turbo R?

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Municipal bond funds

The Vanguard Group, which prides itself on low expenses and an absence of loads, dominates the rankings of national municipal bond funds. Residents of high-tax states are often better off with a portfolio local muni bonds; we show the top-ranked Best Buy each of eight important states.

Fund/distributor	5-year total return annualized	Risk level	Manager (years)	Annual expenses per $100	Maximum sales charge	Asse 6/30/ ($m
National						
Vanguard Muni Bond–Intermediate/Vanguard	8.4%	average	Ian MacKinnon (10)	$0.26	none	$1,766
Vanguard Muni Bond–High Yield/Vanguard	8.7	very high	Ian MacKinnon (10)	0.26	none	1,117
Vanguard Muni Bond–Insured Long-Term/Vanguard	8.5	high	Ian MacKinnon (7)	0.26	none	1,437
Safeco Municipal Bond Fund/Safeco	9.1	high	Stephen Bauer (10)	0.56	none	357
Fidelity Tax-Free–Aggressive/Fidelity	8.8	average	Anne Punzak (6)	0.66	none	584
Vanguard Muni Bond–Long-Term/Vanguard	8.6	very high	Ian MacKinnon (10)	0.26	none	754

One-state

Fund	3-year total return annualized	Yield[1] (%)	Manager (years)	Fund	3-year total return annualized	Yield (%)	Manager (year
Vanguard Calif Tax-Free–Insured L-T	8.9%	6.1%	Ian MacKinnon (5)	Franklin Minn Insured Tax-Free Inc	8.7%	6.6%	Donald S Duers
Spartan Connecticut Muni–High Yield	8.5	6.4	Peter Allegrini (3)	Vanguard NJ Tax Free–Insured L-T	9.2	6.2	Ian MacKinnon
Fidelity Mass Tax-Free–High Yield	9.1	7.0	Guy E Wickwire (3)	Fidelity NY Tax-Free–High Yield	8.5	6.7	Gary Swayze (3
Fidelity Michigan Tax-Free High Yield	8.6	6.9	Peter Allegrini (3)	Vanguard Penn Tax-Free–Insured L-T	9.1	6.3	Ian MacKinnon

International stock funds

Funds that buy stocks overseas are divided into two groups: global funds, which mix U.S. and foreign securities; and foreign funds, which put all or almost all of their portfolios in foreign stocks. Both kinds of fun benefit from a weakness in the dollar on curren markets.

Fund/distributor	5-year total return annualized	Risk level	Manager (years)	Annual expenses per $100	Maximum sales charge	Ass 6/30 ($m
Global						
Vanguard World–US Growth/Vanguard	11.7%	average	J Parker Hall (4)	$0.66	none	$65
Pax World Fund/Pax World	10.3	low	Anthony S Brown (20)	*1.17*	none	17
Vanguard World–International Growth/Vanguard	10.7	average	Richard R Foulkes (10)	0.77	none	82
USAA Investment–Cornerstone Fund/USAA	10.6	low	Multiple managers (7)[2]	1.18	none	57
Foreign						
Vanguard Trustees Commingled–Intl/Vanguard	13.5	low	Dean LeBaron (7)	0.44	none	84
Vanguard Special–Gold & Prec Metals/Vanguard	13.4	high	David J Hutchins (6)	0.42	none§	17
Mexico Fund/closed-end	53.5	very high	Jose Luis Gomez Pimienta (10)	1.45	none	46
T Rowe Price International Stock Fund/Price	12.4	low	Martin G Wade (11)	1.12	none	1,29

[1]Total investment income dividends over the past 12 months, divided by June 30 net asset value. [2]Average tenure of managers, with ten years maximum cre each. §Distributor may impose redemption fee, which proceeds revert to the fund. *Italicized expense indicates 12b-1.*

onservative fund, Franklin Utilities doesn't well when stocks rise. But it has done nningly well over the long pull.

ector funds: tilities

Eric Hardy

HE OLD DAYS utility stocks were, bank stocks, high-yielding yet Today utilities are still just like ks: high-yielding and hazardous. n Public Service Co. of New npshire and now Columbia Gas ping into bankruptcy court, any ion of security in this sector is e..Those lush dividends can be cut stock prices can fall—witness Co-bia's collapse from 40 to 14.

ut if utilities are going to be risky, ast they can be rewarding. Thus it at the Franklin Utilities Fund has vered an average total return of per year during the last three ket cycles (Nov. 30, 1980 to), almost two points ahead of the 500 index.

stablished in 1948, Franklin Utili-is the oldest fund in this sector. It so one of the more conservative. gory Johnson, manager of the l with his father, Charles (the nson family controls the fund's licly traded distributor, Franklin ources), avoids turnaround candidates like Columbia at one extreme and the high price/earnings telephone utilities at the other. The Johnsons prefer electric utilities, which make up 84% of their fund. And when they find something they like, they hold on to it. A flood of new money helped the Johnsons keep portfolio turnover of the $1 billion fund to only 2% last year.

One favorite: Pacific Gas & Electric, which, says Johnson, operates in "one of the best growth regions of the country," California's Bay Area. PG&E's 6.2% yield is slightly below the industry average. Cost overruns at the Diablo Canyon nuclear plant forced the company to cut the dividend in 1988. The project completed, PG&E is poised to raise its dividend quickly, says Gregory Johnson.

The Johnsons also like Philadelphia Electric, although Philadelphia is not a prime growth region. Philadelphia Electric is probably best remembered as the company whose employees were caught napping while they were supposed to be running a nuclear power plant; it has also had to contend with a much smaller than requested rate increase to pay for its Limerick 2 nuclear plant. But the firm, says Johnson, "has put its nuclear problems behind it." For this year *Value Line* predicts $4.10 in cash flow (net income plus depreciation), against only $2.60 in capital expenditures. Johnson expects the company to increase its dividend at a faster rate than the industry average.

Where have the Johnsons gone wrong? In believing utility executives who said they could diversify effectively. "We held on to Pinnacle West [an Arizona electric that bought a savings and loan in 1986] too long," Gregory Johnson says. "We didn't sell even after we lost faith in management because this diversification sounded like such a good deal." Having learned his lesson, he now shuns utilities that wander far from their core businesses, such as Pacific Enterprises, a gas company that went into drug retailing. He dumped FPL Group, the Florida electric company, after it diversified; the company is back on Johnson's buy list after having agreed to sell its Colonial Penn insurance subsidiary. He has never owned Cincinnati Bell, in part because of its $5 million investment in equipment manufacturer AT&E Corp., which went bankrupt in July.

The Johnsons' approach creates a portfolio with an unusually high yield of 7.2%, second only to that of Duff & Phelps Utilities Income among the utility sector funds. Over the past decade that yield, reinvested and compounded, has contributed importantly to total return and stability—enough so that Franklin Utilities would be on the Forbes honor roll *(page 160)* if sector funds were allowed. But in the post-1987 stock market rally, its tilt to higher-yielding, slower-growing stocks has hurt the fund. Since mid-1988 Franklin Utilities has averaged a 10% total annual return, versus 16% for Fidelity Select Utilities. In sharp contrast to the Franklin fund, the Fidelity fund buys a lot of telephone utilities. A weak stock market, however, would probably give the tortoise a chance to catch up with the hare. Franklin Utilities rates an A+ in down markets.

ility funds

d	Total return 5-year —annualized—	Total return 3-year —annualized—	Maximum sales charge	Annual expenses per $100	Yield (%)
dential Utility Fund	10.1%	13.6%	5.25%	$0.97	5.2%
elity Select–Utilities	9.8	15.5	3.00	1.65	2.8
f Utility Income Fund	8.5	10.8	4.75	1.25	5.6
nklin Utilities Fund	7.7	10.3	4.00	0.60	7.2
elity Select–Electric Utilities	5.8	11.9	3.00	2.27	3.8

cized expense indicates 12b-1.

o than a dozen utility sector funds are now available. only five have been around for at least five years.

Investors panicked out of junk bond funds last fall. Now, with prices much higher, they're crowding back in.

Junk gets hot

By Laura Jereski

YOU COULD MAKE a nifty contrarian indicator out of mutual fund sales. In the spring of 1987, just before the stock market crashed, the public bought stock funds heavily; after the crash, investors were net sellers. Buy high, sell low.

They're doing it again, this time with junk bond funds, the ones that specialize in bonds that are, at best, of less than top quality and, at worst, shaky. Last year investors piled out of such funds, with net redemptions of $1.5 billion. As the panic mounted, the market for junk bonds turned up. Price gains, coupled with the oversize interest yields that define this security, fueled a 21% total return for the junk market in the first half of this year.

And now what are fund customers doing? Buying, of course. Junk funds' cash inflow in July alone was at a record-breaking $650 million, estimates Salomon's junk bond research director, Joseph Bencivenga.

This does not prove that we are near a top for junk bonds. It is simply an early warning in a market that could have a ways further to go. It is especially a warning to timers who switch in and out of funds. If they sold

Patrick McDonnell

junk last fall and are buying it now, they are already losers.

The attraction of junk bonds is this: Even though yields have fallen substantially since the beginning of the year, they still offer yields averaging close to 14% as of Aug. 9, six percentage points above Treasury notes. (The number comes from the Merrill Lynch high-yield master index, which covers 638 issues ranging in quality from BB down to C.) Thus a junk bond portfolio could suffer considerable erosion from defaults and threatened defaults, and still beat a portfolio of government paper.

There are, meanwhile, three reasons junk bonds ought to b worth more now than a year ag First, holders have, by fighting i bankruptcy court and haggling ou side it, wrested better terms than th used to have from junk issuers. This a change from 1990, when organize of leveraged buyouts were cavalie offering to buy in their own debt at little as 40 cents on the dollar whi giving up little equity. No more: La month leverage artist William Far agreed to forfeit 95% of West Poi Pepperell to debtholders.

Also brightening the picture junkholders: A spate of equity in sions earlier this year bolstered ma credits, including Duracell, RJR N bisco and AnnTaylor. Finally, there some evidence that insurance com nies and thrifts have finished the wo of their dumping.

But if the risk in junk bonds l lessened somewhat, declining yie have made them less attractive. A l of recent buyers are telephone switc ers coming in from low-yielding mo ey market funds and equity fund Such buyers could pull out as quick as they moved in. Indeed, switche poured $150 million into Fidelit two junk funds—the $200 milli Spartan High Income and the $ billion Fidelity Capital & Income since May. "This is hot money," wo ries Neal Litvack, vice president marketing at Fidelity Investmen "It is just as likely to flow out wh the market hits a bump." To disco age switchers, Capital & Inco charges a 1.5% exit fee to holders w stay less than a year.

Of course, with $230 billi worth of junk outstanding, i unlikely that redemptio from junk bond funds co crash the market. Still, it's time to throw caution to the winds. you want to enjoy the relatively hi yields still offered by junk bond fun take a hard look at what funds buying—and what they are payi Don't get greedy: You can get 12 in a junk bond fund like Vangua Fixed Income-High Yield that inve fairly conservatively.

Don't, for example, rush to funds with the highest yields. De Witter High Yield was the top-p forming junk fund of the first half this year, with a total return (pr

Best Buys: junk bond funds

Fund	5-year total return annualized	Risk level	Manager (years)	Annual expenses per $100	Max sales charge
Merrill Lynch Corp-High Inc-A	8.7%	low	Vincent Lathbury (9)	$0.69	4.00%
Vanguard Fixed Inc-High Yield	6.5	low	Earl McEvoy (7)	0.40	none
Federated High Yield Trust	7.0	average	Mark E Durbiano (4)	0.78p	none
Kemper High Yield Fund	8.2	high	Multiple managers (7)[1]	0.88	4.50
Fidelity Capital & Income Fund	5.5	very low	Multiple managers (1)[1]	0.81	none§
T Rowe Price High Yield Fund	5.4	low	Richard S Swingle (7)	1.03	none

[1]Average tenure of managers, with ten years maximum credit for each. §Distributor may impose redemption fee, which proceeds revert to the fund. p. Net of absorption of expenses by fund sponsor.

These high-yield funds are listed in descending order on a scoring system that rewards good performance over five years, low annual expenses and low or no sales loads.

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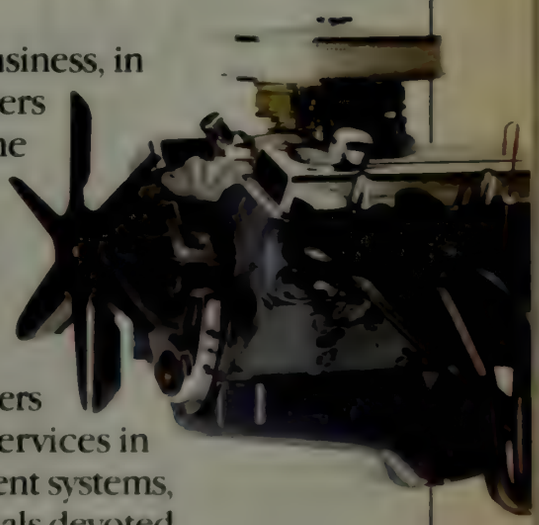

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change plus income) of 44%, according to Lipper Analytical Services. It currently pays 18.4%, much higher than Vanguard's fund. But Dean Witter High Yield has 19% of its assets in zeros, which pay no cash interest and are highly volatile. Note that despite its stunning 1991 gain, the Dean Witter fund has, among open-end bond funds, the worst record over the past five years, with an average annual loss of 2.7% a year.

If the current economic pickup loses steam, some of the riskier issues will be in trouble, especially those that have shown the greatest gains. The 14% senior subordinated notes, maturing in 1998, of Cullum Cos., a Dallas-based supermarket chain whose operating income over the last 12 months ran a thin 1.3 times interest, leaped nearly five points in a week, closing near par. Playtex Family Products zeros of 1997 went from the low 60s two months ago to a recent 70¾, close to their accreted value. (The accreted value is the original issue price with compound interest to date added in. It is comparable to par value in a coupon bond.) Yet Playtex is barely able to cover interest from its operating income.

Even riskier junk issues like American Standard's 0/14¼%s of 2003 or Charter Medical's 0/13%s of 1998 have jumped so that they currently yield 18% to maturity, versus the 30% and 40%, respectively, that they yielded in January. Bonds of sickly Burlington Industries stay stubbornly as much as 20 points above the prices the company is offering to pay to buy them back, which range from 12 cents on the dollar for the most junior debt to 55 cents for the most senior. This while the textile industry has yet to turn around and Burlington has been forced to sell its auto textile business.

In short, there is quality junk and speculative junk. And it takes whole teams of lawyers and accountants to tell them apart. So don't venture into this market except through a mutual fund. And remember, you're not getting in at the bottom.

Our Best Buys ranking *(p. 174)* rates junk bond funds on a scale that gives equal weight to risk-adjusted performance and low cost. A listing of all junk funds with at least $100 million in assets begins on page 278.

Why are equity mutual funds managed by big brokerage firms usually poor performers?

House brands

By Gretchen Morgenson

OF THE 41 domestic equity funds managed by Merrill Lynch, Shearson, PaineWebber, Dean Witter and Prudential Securities, only 2 have beaten the market since 1988. Over the period, not one of these five brokerage firm families outperformed the S&P 500 *(see tables)*.

Adding insult to this injurious performance: Brokerage firms consistently rank low on quality of service provided to fund customers. According to a 1990 survey by Jay Schabacker, editor of the newsletter *Mutual Fund Investing*, Shearson, Dean Witter, Prudential and PaineWebber received "below average" service ratings from 10,000 newsletter subscribers who were polled.

There was an exception: Merrill Lynch funds were spared investors' wrath in this survey.

Why can't most brokers do better? Expense ratios, averaging 1.6% a year on the big brokers' equity funds, make market-beating tough. Add in the effect of fund sales loads portfolio-trading commissions, ther included in the expense aver and the customer has a very up battle. Especially so in funds mana by Shearson: In the past 12 mo

How the big brokerages stack up

Firm	Brokers	Funds*	Assets ($mil)	Avg 3-yr relative performance
Shearson	8,600	13	$3,796	95
Prudential	6,000	9	4,403	96
Merrill Lynch	11,800	8	6,410	95
Dean Witter	7,000	7	5,335	96
PaineWebber	4,500	4	427	99

*Includes only domestic equity funds with three-year returns.
Source: FORBES database.

For all their hig priced talent, Wall Street firms' mutual funds had trouble keepin up. A relative performance o 96 means that fund lagged four points per year behind th S&P 500.

arson's equity funds turned in the st performance of the big broker- fund groups. Over three years it s near the bottom with Merrill ch. One contributing factor: arson's average expense ratio of % is substantially higher than the % average for stock funds.

rokers can sell more than just the ds created by their own firms. y can earn a commission from ost any load fund, including those red by such independent fund dors as the American Funds up and Templeton Funds Distrib- rs. But your broker will have a ng incentive to push the load ds offered by his own company. If ucceeds, the firm stands to take in only the sales commission but also ongoing management fees for ning the portfolio and a piece of brokerage commissions generat- y the in-house funds.

s there a conflict of interest in- ed in the management of mutual ds by large investment firms? All kerage firms make an effort to p their money management activi- separate from their investment king. But whether or not there is flict of interest, suspicion remains. Consider GenRad, a maker of com- er-controlled testing equipment. ast count, Shearson's Small Capi- zation Fund owned 130,000 es of GenRad, its Fundamental ue Fund owned another 100,000, its Aggressive Growth Fund ed 250,000. Having turned in its loss in six years in 1990, the stock recently skulking around 3¼. arson's affiliate Lehman Brothers managed three underwritings of nRad stock since 1980 at prices ging from 42½ to 18½.

tevens Graphics is a Fort Worth- ed printing company. Shearson derwrote an offering of the compa- shares in January 1990 at 16¼. s for the six months ending in e sank 47%, and recently the stock at 6⅛. The Small Capitalization d owns 60,000 shares. In all, 15% his fund is invested in companies which Shearson managed or co- aged an underwriting.

How free to pick their own stocks the fund managers at firms like arson? Are they bound by the gments of the parent firm's research department? Shearson is a big fund player, with around $3.8 billion in its domestic equity portfolios, the most offered by any big brokerage. Jerome Miller, president of Shearson's asset management group, says his fund management operation is "100% independent" of the research department. The fact remains that Shearson analysts' recommendations are often found in Shearson funds.

Consider two holdings in Shearson's Small Capitalization Fund, which is down 14% for the past 12 months. The Nov. 30 portfolio listed 27,000 shares of Y&A Group, valued at 10¾, and 50,000 shares of America West Airlines, at 5⅝. These two stocks made up 2.6% of the portfolio. They have been a disaster for the fund.

Last year Edward Tirello, an analyst who recently left Shearson for Smith Barney, was banging the table advising Shearson customers to buy Y&A stock. The St. Louis engineering firm made news earlier this year when its chairman disappeared amidst charges of fraud. The stock collapsed and was delisted by Nasdaq in April.

As for America West Airlines, Shearson analyst Helane Becker recommended the stock in August 1989 at 9 and promoted it until last May, about a week before the airline filed for Chapter 11 bankruptcy. So persuasive was Becker that Shearson clients ended up owning a big chunk of America West stock. The stock was recently trading around 2¾. The small-cap fund's manager, Richard Freeman, defends his record, insisting that he makes his stock picks completely independent of Shearson's research department.

There's one winner in Shearson's stable: the Appreciation Fund. This 20-year-old fund, conservatively run by Harold Williamson Jr., 70, and Harry Cohen, 50, has been on the Forbes honor roll since 1986. Williamson and Cohen do their own research, preferring big companies with strong balance sheets. Their low 30% turnover doesn't produce much in the way of commissions for the parent. Unlike other Shearson offerings, Williamson and Cohen's fund does not exact 12b-1 fees; its expense ratio is a very respectable 0.84%.

So there are good brokerage house funds and poor ones. But even if you are a satisfied customer of a given brokerage account, you would be wise to set your horizons beyond your broker's in-house funds. Your registered rep can do a lot of things for you, but with mutual funds you will be better off on your own with the help of the FORBES survey. ■

Not so hot

Distributor	Average equity perform[1]	Equity assets[2] ($bil)
Janus Capital	22.3%	$3.3
AIM Distributors	17.5	2.5
Twentieth Century Investors	14.9	8.3
IDS Financial Services	14.6	6.1
Fidelity Distributors Corp	13.2	35.0
Nicholas Co	13.1	2.3
Massachusetts Financial	12.8	4.4
American Funds Group	12.8	25.4
Putnam Financial Services	12.3	6.5
Prudential Securities	12.3	4.5
Dean Witter Reynolds	12.1	5.8
American Capital Marketing	12.0	4.2
Waddell & Reed	11.3	3.9
Neuberger & Berman	10.9	2.2
Scudder Investor Services	10.6	2.5
Dreyfus Service Corp	10.0	5.2
Shearson Lehman Brothers	9.8	3.8
T Rowe Price Associates	9.4	5.8
Merrill Lynch Funds Distrib	9.3	6.5
Oppenheimer Fund	9.1	3.5
Vanguard Group	8.7	17.0
Lord Abbett & Co	8.4	3.7
Delaware Distributors	8.2	2.4
Pioneer Group	7.9	6.2
Heine Securities	7.9	4.3
S&P 500	14.6	

[1]Weighted three-year compound return. [2]As of June 1991, domestic equity funds only.

No wonder index funds are getting popular: Only 3 of the 25 largest domestic stock fund groups beat the S&P 500 over the past three years. Compound annual returns are weighted by assets.

If you want European exposure and you like small-company stocks, USF&G's European Emerging Companies portfolio is intriguing.

Advice like the Rockefellers get

By Richard Phalon

THE European Emerging Companies Fund has done poorly of late. Hit by the ripple effects of the U.S. recession, softening currencies and political uncertainties, European small-company stocks have been put through the wringer. The stocks in the $26 million (net assets) fund's portfolio are cheap enough to warrant a serious look.

Launched by the Fort Washington, Pa.-based Over-the-Counter Securities Group in 1989, the fund started out as a real barn burner: up 26% in its first year of operation. Then came the U.S. intervention in Kuwait and the long slide in European markets that saw the EEC fund's net asset value drop 25% (to around $10 a share) from last summer through June of this year.

A certain cachet attaches to the fund, despite its volatility. It is the only publicly owned investment company advised by Rockefeller & Co., which runs more than $2 billion for some 200 very private clients, most of them descendants or institutional offshoots of John D.

The Rockefellers launched the EEC Fund after buying its original manager, the old OTC Review Management Corp. The latter was sold last year to USF&G Corp., the Baltimore-based insurance and financial services combine. The USF&G subsidiary distributes the shares of EEC and its stablemate, the America-oriented Over-the-Counter Securities Fund.

Rockefeller & Co. continues to run the EEC portfolio, but despite the magic of the family name, the fund right now is something of a hard sell, concedes Richard E. Smith III, chairman of USF&G Review Management Corp. But he notes that earnings multiples on many European small-cap stocks are a lot lower now than a year ago; that, he says, should make the fund a better buy.

"It has always mystified me t stocks are the only assets that beco less attractive the cheaper they ge says Smith. "It's not like cars. You prices, you can move cars, but stocks."

Working in Smith's favor is difficulty of buying these stocks in vidually. Combine unpredicta earnings patterns, shaky bala sheets, currency risks, differences accounting practices and typic strung-out settlements on trades, a you've got a package that carries c siderably more hazards than a U o-t-c stock. A fund is often the o plausible way to buy into Europe.

Among the long-term rewards and the other U.S.-owned Euroc tric funds look to *(see table)* are th that will prospectively flow from elimination of U.K. and Contine tariff barriers next year.

As to risk, the Rockefeller & managers are trying to reduce it pa through diversification. The portf has 77 stocks in 11 countries. Am them: Brau und Brunnen, a Ger brewer whose real estate portf alone is supposed to be worth m than the market value of the sto Cristalleries Baccarat, the Fre crystalmaker, which sits on under ued land holdings in Paris; Zod with perhaps 30% of the world ma in inflatable dinghies; and Iberica Frio, a Spanish producer of superm ket refrigerator display units.

Smith argues that European sm cap stocks have been beaten up badly in the last year that they are n much cheaper than American sm caps. He cites cases like these: Intr Justitia, a U.K.-based debt-collect and credit-management outfit, pri at $1.26 and 7.4 times expected ea ings; and Cambridge Group, an I leasing and financial services comp whose earnings are growing at be than 25% a year and whose stock 88 cents, is trading at about 6.6 ti expected 1991 earnings. Risky? Sm does not disagree. "What we tell vestors," he says, "is that they n perspective, patience and the finan ability to accept greater risk in sea of substantial long-term rewards."

The fund charges a load that st out as 5.75% but declines to zero purchases over $1 million.

Fund	Assets ($mil)	Total return 3-year annualized	Total return 12-mo annualized	Maximum sales charge	Annual expenses per $100
GT Global Growth–Europe	$1,344	9.2%	–18.9%	4.75%	*$1.90*
Merrill Lynch EuroFund	556	10.0	–9.3	6.50	1.15
Dean Witter European Growth	289	NA	–14.1	5.00b	*2.41*
Fidelity Europe Fund	287	7.9	–18.9	3.00	1.36
T Rowe Price Intl EuroStock	91	NA	–15.0	none	1.75p
Financial Strategic–European	65	9.0	–12.5	none	1.29
Shearson Invest–European	28	8.7	–13.0	5.00b	*2.98*
European Emerging Cos	26	NA	–25.1	5.75	*2.25p*

b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. *Italicized expense indicates 12b-1.*

European funds look rather weak in recent performance. But maybe that's because European stocks have simply gotten too cheap and the dollar too dear—and that would make this sector a good buy now.

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This low-risk commodity fund delivered a satisfactory 12% return. And what did the customers do? They deserted in droves.

Unrealistic expectations

By Suzanne L. Oliver

In 1989 Paul Tudor Jones II, the controversial commodities trader, was hot. Over the four preceding calendar years he had delivered a 102% compound annual return (after fees) to his clients. So when Merrill Lynch and Jones got together to offer a commodity pool to the public, they stuck the Tudor name in its title and signed up over 7,000 investors. Tudor Prime Advisors Fund L.P. took in $87 million in its initial offering and began its trading on Mar. 1, 1989.

Results since then have not been so bad—a compound annual 12%. This is a quite satisfactory return, representing, as it does, performance net of the considerable trading costs built into a commodity fund like this one. The average public commodity fund, according to *Managed Account Reports* in New York City, has eked out a return of just 4.6% over the same period. Moreover, the Tudor fund delivered its gains with less volatility than that of the stock market and the typical commodity pool.

Yet mass redemptions have reduced the fund's assets to $46 million. The buyers were disillusioned. The performance was nothing like the 100% boasted about in the prospectus. Nor does it come close to the 48% annualized return over the past 28 months that Paul Tudor Jones, 36, has delivered on his now private Tudor Futures Fund, which is closed to new investors.

Alex Quesada/Matrix

Paul Tudor Jones II **His multi-adviser fund disappointed investors expecting 100% returns.**

Tudor Prime's shareholders not only didn't get rich, they didn't get instant gratification. Returns were slow in coming. At the end of 1989 the fund's net asset value was unchanged at $100 a share. Despite penalties for early withdrawals, shareholders redeemed $18.6 million worth of shares that year. In March of 1990 the redemption charge dropped from 3% to 2%, and the fund suffered its largest monthly share redemptions.

It was a classic case of impatience leading to a bad investment decision. Those investors who pulled out c at precisely the wrong time. As I invasion of Kuwait heated up commodities markets, Tudor P Advisors picked up steam and c ered a 36% return by the end of 1

This year? Tudor Prime Advis being outpaced by the stock ma and more investors have headec the exits. As of June 30 the fund' asset value per share was down 3 while the S&P 500 was up 14%. Ir tors have withdrawn another $8 lion from Tudor Prime Advi Commodity investors, it seems, fairly short attention spans. Much short for their own good.

Why haven't Merrill Lynch's m ly small investors done as well as big rollers in Jones' private fi where the minimum investment $25,000? Jones does not make a Tudor Prime's trades. He mana only a portion of the money, farm out the rest to other trading advis eight initially. Therefore, Jones' dor Futures Fund makes much l ger, or more concentrated, bets t the Tudor Prime Advisors Fund, sc ing bigger returns when Jones is ri but losing more when he's wrong

The trouble with the policy of sp ting the money is that in the co modity business, next year's winn list won't bear any resemblance to t year's. Three studies have been m of public commodity funds by fina professors Edwin Elton and Mar Gruber of New York University a Joel Rentzler of City University New York. The studies reported t public commodities funds' one-y or even three-year returns have n to no correlation with their fut

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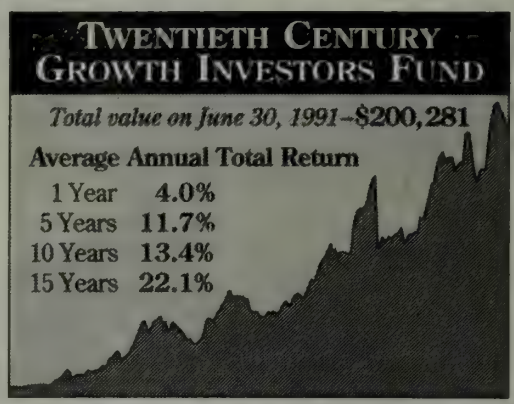

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Fund has been a winner in com
ities for most of the past seven ye
but he has had a hard time fi
other advisers with similar skills.

All eight of the original tr
advisers either have been fired or
resigned. One departed advis
Jones' own Tudor Systems C
which followed a technical tr
system developed by its then 28-
old president, Peter Borish. The
tem had a mere month of perform
history reported in the prospectu
the Tudor Prime Advisors. No ma
Jones allocated $9 million to T
Systems. But the unseasoned com
er model proved too volatile,
Borish decided to withdraw T
Systems from the fund in 1990.

High costs certainly reduced
formance, too. While Merrill Ly
didn't charge a sales commissio
compensate brokers selling the fu
it earned hefty brokerage com
sions for executing the fund's
and sell orders. Merrill got 1.25
assets per month to cover broke
commissions and in turn paid J
40% of its commission take for
work hiring and firing subadvis
The Merrill commission rate was
last year to 1% a month. Still,
adds up to 11.3% a year. So far M
rill Lynch has collected $22 mil
in trading commissions, pass
along $8 million to Jones.

But there is more: Commo
trading advisers get incentive fee
an adviser is successful, he keeps
of his gains. Meanwhile other advi
could be losing money, and they c
in nothing. Thus, it is quite possi
for the fund to be paying out
incentive fees at a time when
advisers as a group are just tread
water. That's exactly what happen
to Tudor Prime Advisors in the f
quarter of this year. The fund a
whole was off 4.9%, before trad
fees due to advisers, but still ow
$240,598 to the advisers that w
making money.

Chances are that a lot of the dis
pointed investors who first rushed
then rushed out, hadn't thoug
about all these pitfalls. If they h
they might not have been turned
by 12%—which is pretty darn goo
considering.

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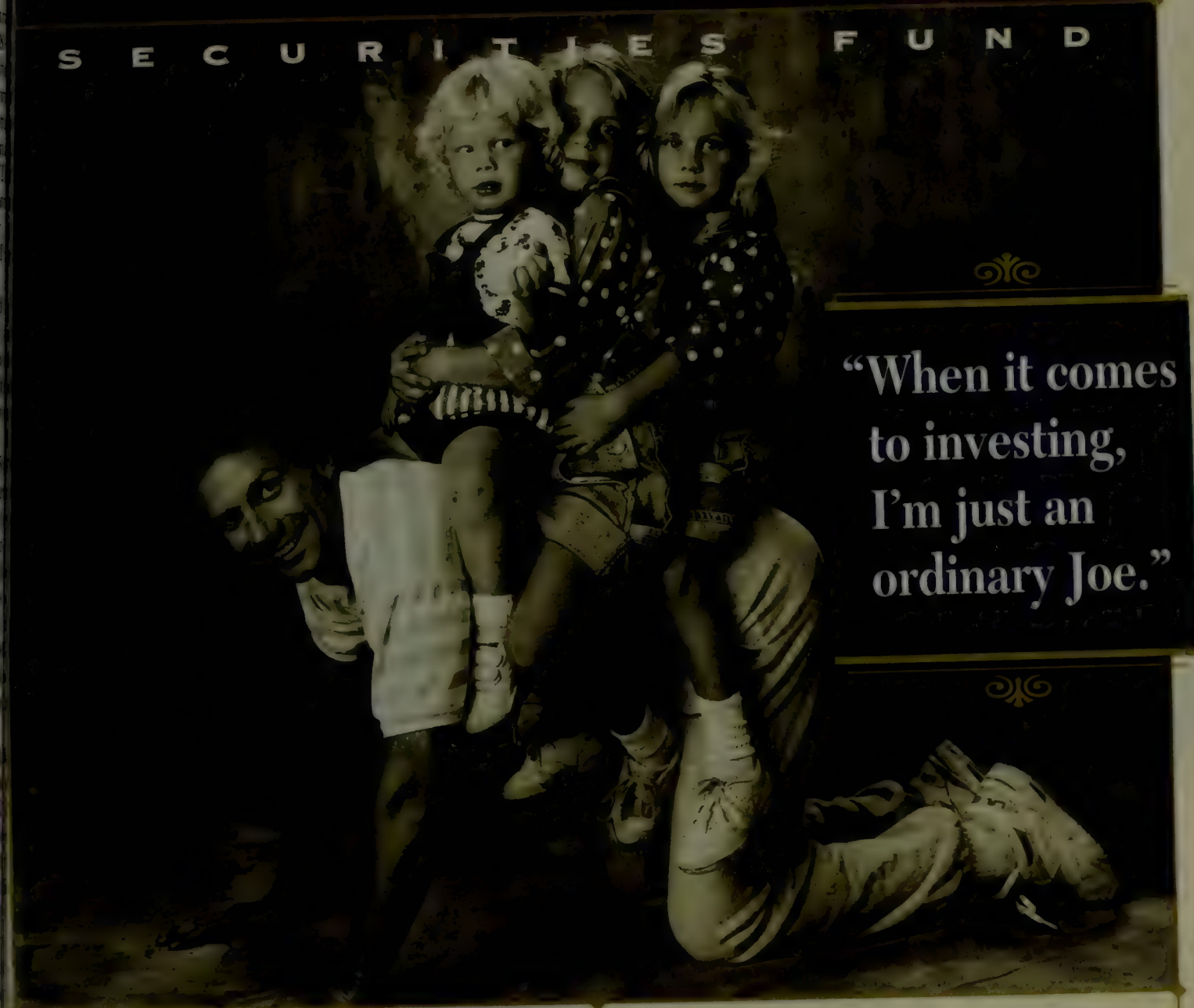

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Financial sector funds took a harsh beating the last few years. Philip Dubuque's Financial Services portfolio escaped that fate by stretching the definition a little.

Sitting this one out

By Roula Khalaf

IF YOU PUT YOUR MONEY in financial services in the last few years, chances are you're still licking your wounds. The 1987 market crash was just a warmup for the real estate crash that is killing so many banks, thrifts and now insurance companies.

But in a terrible market, some investors did much better than average, and one of them is Philip Dubuque, 29, manager of Invesco's Financial Strategic-Financial Services portfolio. Financial Strategic's performance was as feeble as the others on our list until Dubuque took over. Since then, he has proved that a sector fund doesn't have to behave like its sector.

Here's the score: According to Morningstar, the Chicago fund-rating company, financial services funds lost 16% on average in 1990, while Dubuque's was off only 7%. By contrast, Fidelity's financial services fund, which steadfastly hung on to stocks like Manufacturers Hanover, was down a devastating 24% last year.

In the first half of this year financial services funds were up an average 29%; Financial Strategic was up 34%.

Dubuque has managed the fund since March 1990 after working as a financial services analyst for four years with banks in St. Louis and Chicago. He worked out a novel approach to the industry: If you can't find sound companies in financial services, sneak out of the mainstream and into the fringes. As bank stocks bottomed in October of 1990, Dubuque's fund was only 17% in banks. The rest was in a vaguely financial melange ranging from computer software to health care management. It included: Keane, a custom software provider to hospitals and financial service companies; Equifax, which sells credit reports; Preferred Health Care, provider of mental health care management to insurers; Cash America Inv ments, a pawnshop operator; H Block; and Union Corp, a collect agency. When attractive candida dried up, Dubuque simply h cash—up to 45% at one point year. Thus were his investors spare the 1990 massacre of bank stocks.

"These companies are not the p ones, but they're financial compa in one way or another," asserts D buque. "If there's distress in the dustry, there's always someone wh going to benefit. The collection co panies, for example, did." Most of "quasi-financial" stocks were eit up or flat in 1990. Bank stocks w off an average 30%.

Last November, however, D buque decided that the badly beat banks were finally due for a rebour and started moving out of the co puter and health care manageme stocks and back into banks. His fav ites are NBD Bancorp in Detroit, busy buyer of smaller banks; Pit burgh's PNC Financial, in which D buque sees tremendous earnings m mentum; and Cleveland's Ameritr Corp., now in merger talks.

Dubuque also has a good porti of his fund in Fannie Mae, Fred Mac and Sallie Mae. Says he: "They' monopolies or oligopolies, and ther fore I don't see a whole lot of risk margins deteriorating."

He is still cool to big New Yo banks. "The regionals are where t action is," he says. "We'll continue see a lot more mergers and, mo importantly, we're going to have national interstate banking bill in th next three years. . . . Midwester banks didn't have the excess lo growth. They tend to have bett management, and they've alrea gone through somewhat of a rece sion on the industrial side."

All this switching, of course, has price. Dubuque's turnover rate was staggering 500% last year. "Bank an insurance stocks tend to move quick ly," he says. "If I make good money, don't mind moving on to somethin that has a better risk/reward." Feve ish trading can hurt a fund, by run ning up transaction costs (brokerag fees and marketmakers' spreads). Du buque, however, seems to have mad up for these costs by trading his wa around a lot of potholes. ■

Financial services funds

Fund	Manager (years)	Assets ($mil)	5-year return (annualized)	Maximum sales charge	Annual expenses per $100
Financial Strategic-Financial Svcs	Philip Dubuque (1)	$41	10.1%	none	$1.28
Freedom Inv-Regional Bank	James Schmidt (6)	51	7.8	3.00%b	2.07
Century Shares Trust	Allan W Fulkerson (15)	147	7.8	none	1.03
PaineWebber Regional Financial	Karen Finkel	43	6.6	4.50	1.67
Fidelity Select Regional Banks	Steve Binder (1)	29	6.4	3.00	2.51
Fidelity Select Financial Svcs	Bruce Herring	39	-1.0	3.00	2.49

b: Includes back-end load that reverts to distributor.

Financial services funds are on the rebound, after having been beaten for years. Financial Strategic leads the group in five-year performance. It's also cheap, with relatively low annual expenses and no sales load.

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Charles Albers, a five-timer on the honor roll, combines two approaches to investing. The combination has served him well.

Momentum—and value

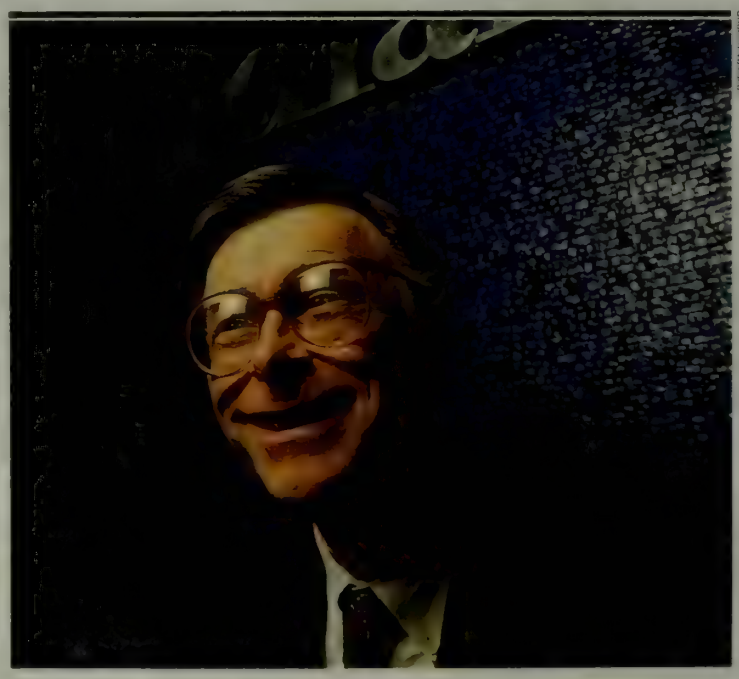
By Suzanne L. Oliver

CHARLES ALBERS, 50, is a methodical man. He runs 4 miles three times a week—always on Saturday, Sunday and one weekday—and he doubleties his shoelaces. He also manages the $275 million Guardian Park Avenue Fund with the assistance of a mechanical stock-scoring system. "It's practical," he says.

Albers began experimenting with stock-scoring systems while working as an analyst for the *Value Line Investment Survey* in New York City. He developed his current system after joining Guardian in 1971. His approach has served Guardian Park Avenue shareholders well. Since the fund began in 1972 with Albers at the helm, it has achieved a 15.2% average annual return, compared with 11.7% for the S&P 500. The consistency of Albers' performance, and the relatively low risk in the fund (it gets a B in down markets), put him on the FORBES honor roll for the fifth time this year.

Does Albers always win? Hardly. In 1989 and 1990 he badly underperformed the market with an 8.6% two-year return, compared with the S&P 500's 27.5%. But this year he has shone like gold. The same factor that held him back in 1989 and 1990 propelled him into the vanguard this year: small-company stocks.

Albers' system scores a stock primarily on three measures of "momentum": dividends, stock price and earnings. If a stock's growth in these three categories outperforms its industry or the market, Albers takes a second look. The Albers system also throws in three measures of underlying value: the ratio of price to book value and the ratio of price to two different present-value figures. One of these figures is the discounted present value of cash flows, cash flow being defined as net income with depreciation added back. The other is the discounted present value of all future dividends. Of course, these valuations are only as good as the estimates of profits and dividend go into them.



Charles Albers of Guardian Park Avenue Fund
Small stocks were his downfall and his salvation.

In 1986 the system was givin stocks of large companies low sc Their prices, earnings and divic were growing nicely, but as the ket rose they were falling down three value scores.

So, with the new money tha rapidly coming into the fund a end of 1986, Albers bought stocks such as the petroleum re Holly Corp., American Software the microcomputer maker Tel Albers was too early. Except for a resurgence in 1988, small stocks tinued to be the market's plodde

This January small stocks c back with a vengeance. So did Guardian Park Avenue Fund, whi up 23.4% through July, versus 19 for the S&P 500. Among its winne Surgical Care Affiliates, a chai outpatient surgery centers, wh stock has quadrupled since Jan to 44¼. Albers, who be buying the shares in Fel ary 1990, has an ave cost of $9 a share.

"We think our under formance is behind says Albers. But he's waiting for another on his strategies to pay Over the past two years bers has cut back his he ings in consumer sto selling out of 1980s sta outs like Sotheby's, N Outboard Marine and Beers Consolidated Mi Why? For one, the inde consumer goods stocks reached an alltime high ative to the S&P 500. On measurement system consumer standbys McDonald's, Wal-M Limited and Gillette h some of the worst score the 850 stocks Albers currently lows. So Albers sold many of stocks in that sector—too early, a turns out. He is waiting to be vin cated there.

Meanwhile, the small stocks in bers' portfolio are chalking up st stantial gains. The fund's position $260 million (revenues) Clayt Homes is up almost 100%. Alb expects this manufacturer of mediu

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trouble with successful small-company stock kers is that they get shoved into a large-company e. Can the Ariel funds' John Rogers escape this fate?

ust saying no

Richard Phalon

HE GROWING LIST of money man- s who got too successful investing mall-company stocks, add John Rogers Jr., founder and president he Chicago-based Ariel Capital agement Co. So much new mon- as been flooding into the firm that an't really be a specialist in small- pany stocks anymore. Mindful of pressures on him, Rogers has de- d to slam the hatches—closing larger of the two mutual funds he ises, Calvert-Ariel Growth Fund, ew customers. He is also threaten- to close a newer fund, Calvert- l Appreciation Fund, and is refus- new pension accounts. "We can't e on any more new cash and still preserve our focus," he says.

Are Rogers' actions too late? Rogers has already allowed big money to distort his objectives. Here's the problem:

Ariel, named after the fleet (and nearly extinct) mountain gazelle, is running $1.4 billion, a sum that cannot leap gracefully in and out of the shares of little companies. As recently as five years ago, with only $45 million under management, Rogers could describe his mission as primarily a hunt for lesser-known companies with revenues in the $100 million to $200 million range, and selling for ten times earnings or less.

It worked: Since inception in 1986, Ariel Growth is up a compound annual 15.7%, putting it fourth among 50 small-company funds in Lipper Analytical Services' rankings.

Rogers established himself with good gains in such over-the-counter stocks as Liqui-Box Corp., Century Papers, Waverly Press and Pearle Health Services. All these have market capitalizations below $200 million. A $45 million manager could put 5% of his money in one of these small companies without disturbing the price or ending up with an unwieldy percentage ownership of the target company.

A $1.4 billion manager can do nothing of the sort. He must either scatter the portfolio among hundreds of companies, with each winner having only a tiny impact on results, or confine his attention to bigger fish.

Rogers has taken a course somewhere down the middle. Ariel Capital still has pieces of small companies in which it has handsome profits: Sanford Corp., Topps and McCormick & Co., all bought at comparatively modest multiples several years ago. But 9 of the firm's 15 biggest holdings are Big Board stocks with such recognizable names as Clorox, Flem-

SteinRoe Managed Municipals Outperformed 91 Tax-free Funds Last Year

According to Lipper Analytical vices, Inc., SteinRoe Managed unicipals surpassed 91 of the 106 neral municipal bond funds for al return over the 1-year period ending 6/30/91.* Over 10 years, the Fund's total return was better than 33 of the 35 funds in its category. Managed Municipals is designed for investors seeking high levels of tax-free income.* Capitalizing on the complexities of the municipal market is the key to the Fund's performance record.

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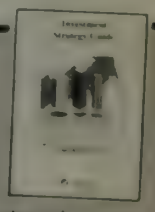

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Fund/distributor	5-year total return annualized	Risk level	Manager (years)	Annual expenses per $100	Maximum sales charge	Asse 6/30/ ($m
Nicholas II/Nicholas	10.1	low	Albert O Nicholas (7)	$0.72	none	$45
Sit New Beginning Growth Fund/Sit	11.4	average	Douglas C Jones (9)	1.10	none	12
Pennsylvania Mutual Fund/Penn Mutual	8.5	very low	Charles M Royce (18)	0.94	none§	70
Selected Special Shares/Kemper Secs	9.7	average	Ronald W Ball (4)	*1.26*	none	5
Scudder Development Fund/Scudder	8.4	high	Multiple managers (3)[1]	1.36	none	47
Janus Venture Fund/Janus	14.0	low	James P Craig III (6)	*1.08p*	none	74
Babson Enterprise Fund/Jones & Babson	7.5	average	Peter Schliemann (6)	1.22	none	10
T Rowe Price New Horizons Fund/Price	4.9	high	John H Laporte (4)	0.90	none	1,19

[1]Average tenure of managers, with ten years maximum credit for each. §Distributor may impose redemption fee, which proceeds revert to the fund. p: Net of absorption of expenses by sponsor. *Italicized expense indicates 12b-1.*

These are ranked in descending order on a score that rewards funds for good performance and for low costs (sales load and annual expense rate).

ing Cos. and Omnicom Group.

The new money pushed Rogers not only into bigger companies but also into taking big stakes: 4% of Clorox, 6% of Omnicom, 12% of First Brands (Glad Bags, Prestone) and 12% of Handleman (a rack distributor of video- and audiocassettes). Rogers argues there has been no real change in his investment style. "The emphasis has always been on lesser known companies," he says.

The dilemmas of growth have plagued other small-cap managers, but they pursued Rogers, 33, with extraordinary speed. When he set up Ariel in 1983, two and a half years out of Princeton and a stockbrokering stint with William Blair & Co., Rogers had in hand exactly one major outside account—$100,000 worth of Howard University endowment money.

Today Ariel gets business from the funds (distributed by Calvert Group, best known for its "socially conscious" investing) and from 50 big clients ranging from Revlon and the District of Columbia to the United Negro College Fund. These probably generate $6 million a year in management fees.

Can Ariel do as well with stocks like Clorox as it did with Liqui-Box? That remains to be seen. So far this year, Rogers says, all his funds and private-label clients are up 20% or more, well ahead of the 15% gain for the market as a whole. But over the past 12 months Ariel Growth has merely treaded water, with a 0.5% return (to the market's 7.4%), while Ariel Appreciation is up a modest 9%. Rogers says he intends to close the latter, which now has $56 million in assets, at a somewhat higher level than the $200 million at which the growth fund was closed.

Rogers may change his mind at some point. Other managers awash in new money have closed and reope the spigot from time to time. cloned a new fund to absorb overflow. The Janus Fund, for stance, got famous for its success smaller companies, but now has $ billion to manage—most of it course, invested on the New Y Stock Exchange. Janus' opera broke out a new fund, Janus Vent as a vehicle for the smaller compar but that fund did so well it has p up $920 million in assets. It co out sixth in our Best Buys rank above. (Tables in this survey sl assets as of June 30—lower in m cases than current figures.) Now managers of Janus Vent say they will close the fi to new money at the en September.

Rogers seems sinc about closing his do "We've got only about stocks overall in the por lio," he says. "I can't h dle more money and consistent results. Th are only so many g ideas."

Everybody should h such problems. As Ro himself notes, being on the few minority-owi management firms arou has helped Ariel land s accounts as the Chic and Los Angeles city

Money manager John W. Rogers Jr.

Will he do as well with Clorox as he did with Liqui-Box?

es' retirement funds. Good con-
ons haven't hurt, either. Rogers'
er, Jewel Lafontant-Mankar-
a part-owner of Ariel, was a
partner in a Chicago law firm
e being named ambassador-at-
and U.S. coordinator for refu-
ffairs by President Bush in Feb-
1989. At least two of the seven
orations on whose boards she sat
e her appointment (Revlon and
l Corp.) are on Ariel's list of
s.

t connections only go so far; in
end the only credential that
ts is compound annual return.
hat reason, Rogers' self-imposed
traint on growth could be a good
-term investment.

From now on, it's going to be a
simple story," says Rogers. "Our
te clients can judge us by just one
g—growth of assets."

he Best Buy table (*opposite*) ranks
l-company funds according to a
ula that gives equal weight to
adjusted performance and low
s. Ariel Appreciation is too young
make the list. Ironically, by the
it does qualify, it may be closed
ew money. ■

Tired of Japanese stocks trading at 36 times earnings? Try Latin American stocks at 13 times. Risky? Yes, but getting in early is always risky.

Southern exposure

By Suzanne L. Oliver

IF YOU MISSED the near 70% runup (64% to U.S. dollar investors) in the Mexican stock market through June of this year, you may be wondering: Is it too late to put some money in the Bolsa Mexicana de Valores?

"No," argues Oscar Castro, portfolio manager in the Latin American investment group at G.T. Capital, a money management firm in San Francisco. "There is the [eventual] potential in Latin America for too much capital to be chasing too few stocks. But we are far from that now."

Castro says that while demand for Mexican stocks is rising, so is supply: "As the valuations of the publicly traded Latin American stocks go up, more companies offer shares in the stock market."

Indeed there seems to be ample room for Latin American stock markets to grow. The total market capitalization of the companies listed on the Mexican stock exchange is worth only a third of Mexico's gross national product. Brazil has listed stocks worth a combined $42 billion. That's only

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*cording to Lipper Analytical Services, Inc. for growth funds $250 - $750 million in assets. Special Fund was #1 out of 23 s for the 20 years ended 6/30/91. For the 10-, 5-, and 1-year ods ended 6/30/91, the Fund ranked #3 out of 29; #7 out of 43; #39 out of 48, respectively. Total return performance includes nges in share price and reinvestment of income and capital gain ributions. Past performance is no guarantee of future results. re price and investment return will vary, so you may have a or loss when you sell shares.

8% of that country's gross national product, while the corresponding ratio in the U.S. is 62%.

One more statistic of value: With the sole exception of Venezuela, the average price/earnings ratio on each of the five largest Latin American stock exchanges is 15 or less. In Argentina, it's 5.

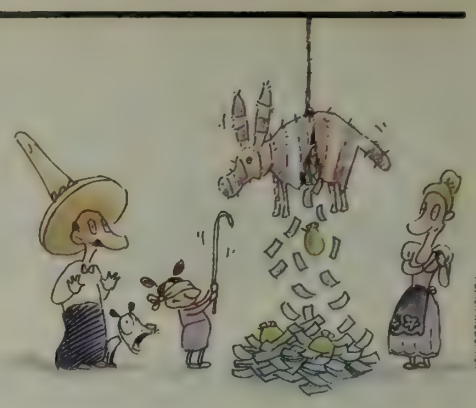
Lest we get carried away, let's remember that none of these Latin countries ranks anywhere close to Japan—or even Korea or Taiwan—in economic stability, technological prowess or reliability of the currency. But you can say this about Mexico, Chile and Argentina: Economic reform has reduced inflation, initiated the privatization of industry and encouraged foreign investment.

Castro believes investors with at least a three-year time horizon should consider putting money in Latin America.

How to buy in? Brokerages have responded to the renaissance in Latin America by bringing out new closed-end funds that invest in the region. Some of them are too new for us to judge their managers' investment acumen, but most of them often sell at discounts to their net asset values that can provide some cushion for shareholders.

For wealthy individuals, the new Megy Income Fund, with a minimum investment of $100,000, offers an opportunity to invest in Latin American government debt.

The Mexico Fund is the grandfather among Latin American funds. It



Patrick McDonnell

has delivered shareholders a 19% average annual return on its dollar net asset value since its inception in 1982. This year the company's asset value per share climbed from $15.64 to $23.65 in June. That 51% rise is roughly in line with the 60% dollar return on the average Mexican stock. The Mexico Fund's shares, which trade on the New York Stock Exchange, were trading recently near their net asset value at 22⅜.

The Emerging Mexico Fund and the Mexico Equity & Income Fund were both first offered to investors in 1990 and are selling at discounts to their net asset values *(for table of closed-end discounts, see p. 250)*. The Emerging Mexico Fund invests primarily in Mexican equities, while the Mexico Equity & Income Fund invests 50% of its assets in U.S.-dollar-denominated convertible securities of Mexican companies that it buys in private transactions. This fund has a 4.5% yield.

Chile began its free enterprise reforms long before Mexico did, restructuring its private-sector back in 1983. Castro expects infl there to drop to 20% this year 27% last year. He thinks the econ should grow, net of inflation, at of 4.5%.

During 1990 the Chilean market turned in a total return of in dollar terms, while the net value of the almost two-year Chile Fund moved up just 27%. lio Bassini, portfolio manager of fund, blames his underperform on the expense of his currency he and his 10% position in fixed-inc securities. But maybe he shouldn making any apologies. Since the f was started, it has produced a annualized return to dollar invest

Bassini is also the portfolio ma er of the Latin America Investm Fund, which started trading in gust 1990. The fund's largest p tions are in Mexico and Chile, wl it owns shares in the telecommun tions companies Telemex and T fonos de Chile and the largest M can retailer, Cifra. The fund gained 44% from its $15-per-sh initial offering price and recently t ed near its net asset value.

The Brazil Fund has been h strung by a deep recession that be in Brazil in late 1989 and hel knock net asset value per share dc from $18.85 at the end of 1989 $5.97 a year later. Edmund Gan manager of the Brazil Fund, po out that President Fernando Co de Mello has mellowed his aggres inflation fighting, which slowed e nomic growth, has taken a somew more sympathetic view of private c ital and has been loosening the tion's monetary purse strings. T stock market has rebounded this y and the fund's shares, at a recent 17 were trading at a slight premium net asset value.

Castro owns shares of both Chile and the Brazil funds in forei based portfolios he manages. S Castro, a Venezuelan, "Latin Ame can governments have a new attitu We'll soon see their economies gro ing at 5% annual rates." If he's rig the region could be another Paci Rim by century's end. Even if h exaggerating, there could be a lot growth here.

The route to Latin America

Fund	Assets ($mil)[1]	Price[2]	Premium/ discount[2]	6-month return[1]	Annual expenses per $100
Brazil Fund	$169	$17.75	18.3%	134.9%	$2.25
Chile Fund	155	27.25	–16.4	64.0	2.04
Emerging Mexico Fund	86	16.38	–13.2	55.3	2.36
Latin America Investment Fund	87	23.00	–2.3	64.0	3.20
Mexico Equity & Income Fund	89	13.00	–13.6	25.7	1.97
Mexico Fund	464	22.38	10.0	51.1	1.60

[1]As of 6/28/91. [2]As of 8/2/91.
Source: Shearson Lehman Brothers; FORBES.

Investors who want exposure to the steamy stock markets of Latin America should consider closed-end funds. Other things being equal, look for a big discount.

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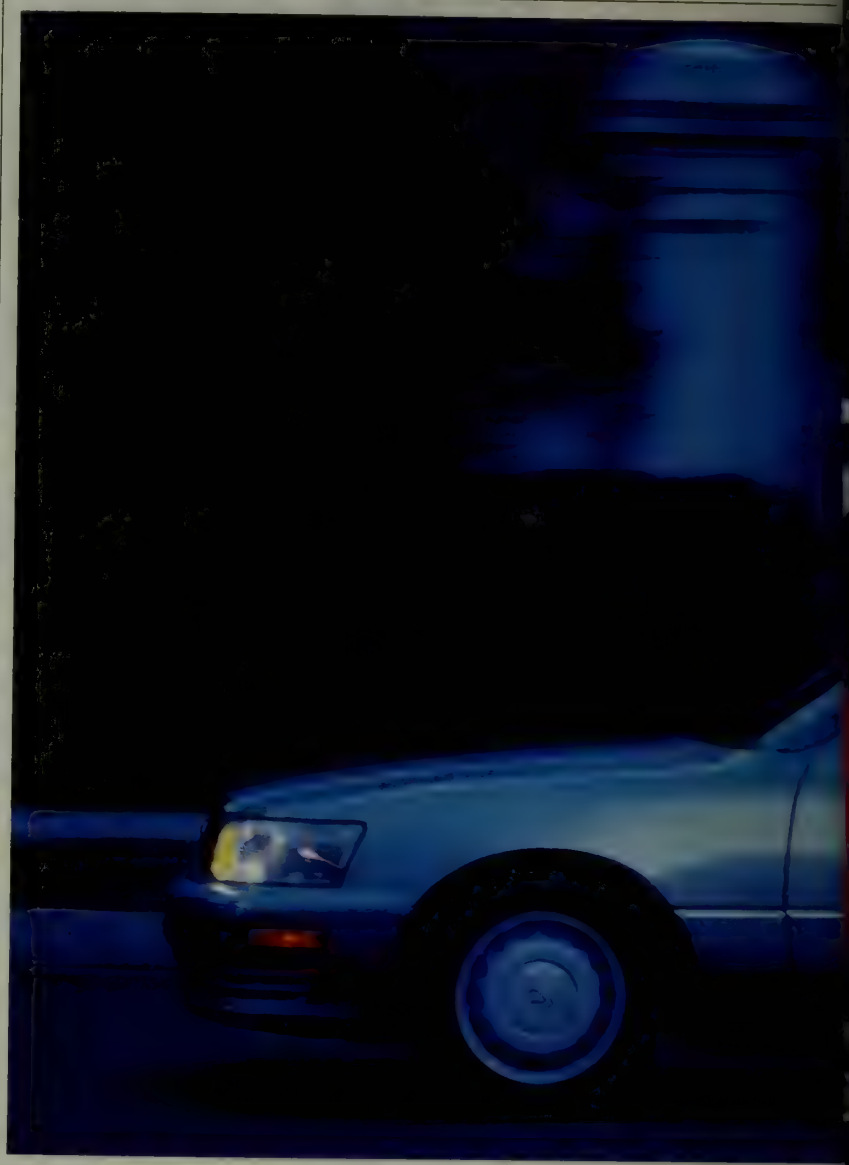


We have all, at times, found ourselves running a little behind schedule. Though few of us have had the luxury of a Lexus LS 400 awaiting our departure.

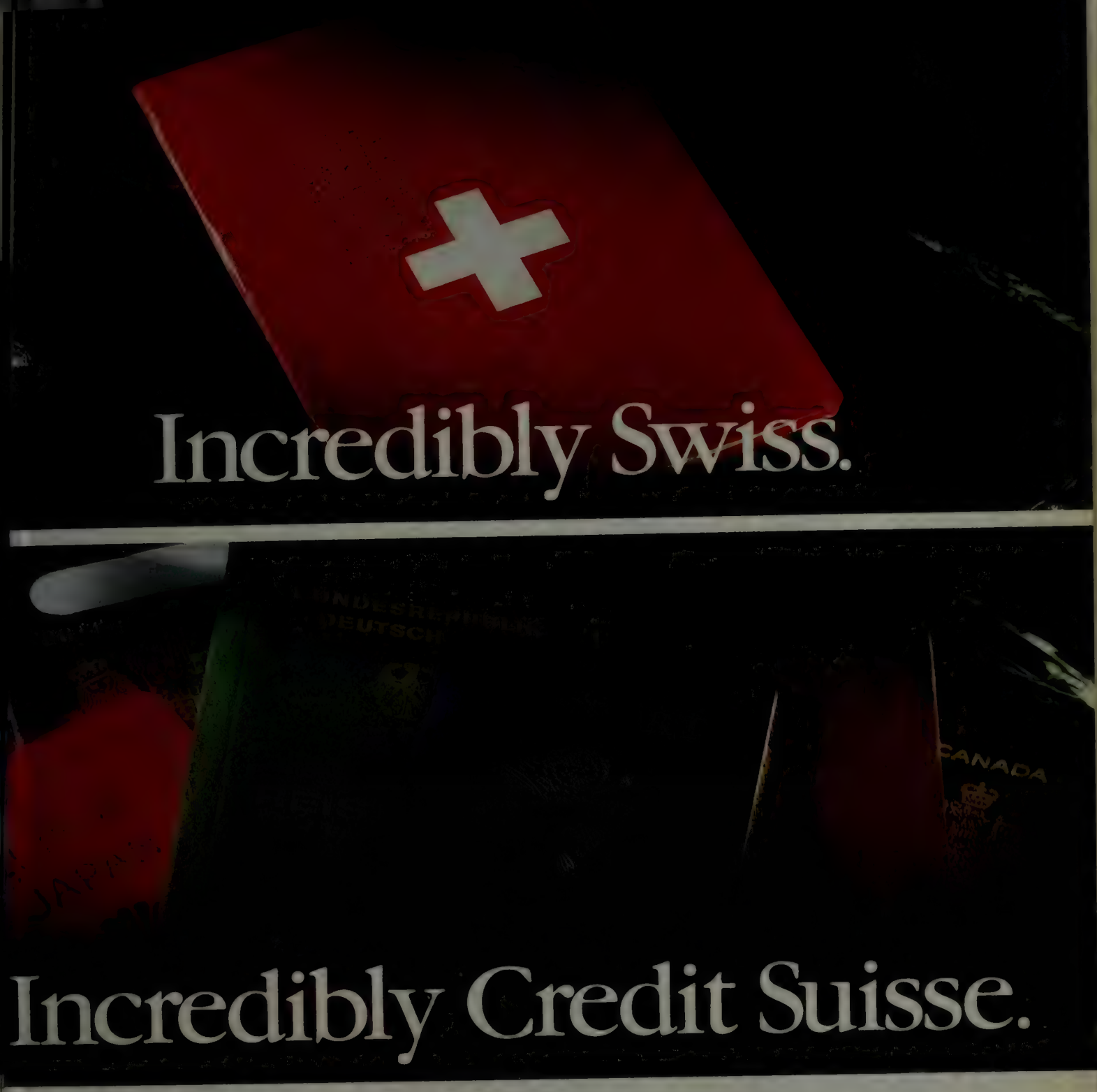
Once engaged, its 250-horsepower V8 can quickly resolve whatever scheduling problems may confront you.

However, this is not to say that on principle we endorse precipitous travel. Quite the contrary. That would only

Arrive Fashionabl

serve to reduce your time spent within the luxuriously contoured environment of the LS 400's cabin.

Once inside, you'll barely feel the forward pull of the Four Cam, 32-valve power plant. The soft, supple seating caress you. The high-o



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An "asset allocation" fund is a plain old balanced fund with market timing thrown in. Does the timing add anything? Not that we can see.

Bad timing?

By Christopher Palmeri

WHEN THE Blanchard Strategic Growth fund came out in July 1986, it had a grand concept. An expert asset allocator would choose among four asset categories, based on their attractiveness at the time. The money would then be farmed out to an outside manager in each category: domestic stocks, foreign stocks, precious metals and bonds. In effect, this was the classic balanced fund, mixing stocks and bonds, except that it was supposed to do much better than just any balanced fund. After all, the allocator could put his emphasis on whichever of the categories looked most promising.

How has the strategy worked? Not brilliantly. In the five years since its launch, the $181 million Blanchard fund has delivered a total return averaging 9.6% a year. On that score it doesn't quite match the 10.2% average of all the staid, old balanced funds, which invest in a more or less fixed mix of stocks and bonds.

People pitching asset allocation funds got a big boost from the 1987 market crash, when the allocators who were lucky enough to be mostly out of the market saved their clients a bundle. Based on this limited experience, many allocation funds were rushed to market, and there is now $4 billion invested in this category.

Mediocre as its results were, the Blanchard fund did better than a lot of other allocation funds. Most of them produced wretched returns. Lipper Analytical Services, which calls them flexible portfolio funds, counts 26 that have been around for at least three years. Their average annual return is just 8.6%. You would probably have done better than that in a conventional balanced fund. In short, the market timing was worse than useless.

"Asset allocators are really just cousins of market timers, and it is pretty hard to add value with that strategy," says Kurt Brouwer of the San Francisco-based investment advisory firm Brouwer & Janachowski. "You'd better be right three out of four times or you will underperf the averages." Why? Because of all switching they do, the asset alloca run up high transaction costs.

Typical among the allocators is $214 million Dean Witter Mana Assets Trust, dating to June 198 carries a 5% back-end load and above-average expense ratio, 1.8 assets annually. That means D Witter has to make some fairly s calls just to keep even with a low-c fixed-mix balanced fund like V guard Wellington. Dean Witter M aged Assets has returned a bel average 8% a year.

Not that the Dean Witter f don't perform a lot of mumbo jum They have three portfolio mana who crunch a great deal of econo data and still seem to make wr calls. The fund sat through much 1989 with just 8% in stocks and 60 its portfolio in money market inst ments. The S&P 500 stock aver climbed 32% that year.

Another mediocre market time the Overland Express Asset All tion Fund, managed since 1988 Wells Fargo Nikko Investment A sors, a partnership between the U bank and the Japanese broker. T fund bases its timing calls on a bl box Wells Fargo developed in 19 The system calculates the stock m ket's attractiveness by estimating future dividend payments and counting them to the present. T claimed performance record for t system since 1977, when it was f used to manage money, is noth short of dazzling. Recently, howe the system has been just so-so. O the past three years Overland's av age annual return has been only Wells Fargo turned bearish too so loading up on cash early enough miss most of the 1989 stock ra Alibis Wells Fargo Nikko Presid Patricia Dunn, "The computer p out of markets that are overvalu Sometimes it takes a while to right."

Dunn remains steadfastly bear on stocks, and she may yet be pro right. Until then, our recommen tion for people who want a mix stocks and bonds is this: Buy a b anced fund with a decent record an low expense ratio. Our Best Buy lis on page 204.

The largest allocation funds

Fund	Assets ($mil)	3-year return annualized	Maximum sales charge	Annual expenses per $100
IDS Managed Retirement Fund	$874	15.6%	5.00%	$0.89
Dreyfus Capital Value Fund	760	10.8	4.50	*1.20*
PaineWebber Asset Allocation	368	7.6	5.00b	*1.95*
Prudential FlexiFund–Strategy	216	10.4	5.25	*1.30*
Dean Witter Managed Assets	214	8.0	5.00b	*1.78*
Shearson Equity–Strategic Inv	206	11.0	5.00b	*2.05*
Blanchard Strategic Growth	181	4.9	0.00	*2.36*
Prudential FlexiFund–Conservative-A	162	8.9	5.25	*1.27*
Shearson Multiple Oppors LP	142	4.9	3.00b	*3.02p*
Dreyfus Strategic Investing	122	14.4	4.50	*1.50p*
Standard & Poor's 500		14.6		

Italicized expense figure indicates 12b-1 plan. b: Includes back-end load. p: Net of absorption of expenses by fund sponsor. *Source: Lipper Analytical Services.*

A list of the biggest allocators, not surprisingly, includes a disproportionate number of the better ones; the category's average return since 1988 is only 8.6% a year.

EWAR'S PROFILE:

Denys Cowan

HOME:
New York, N.Y. "Unlike most people here, I've lived in Gotham City all my life."

AGE: *31.*

PROFESSION:
Graphic/comic book artist, DC Comics.

HOBBY:
"I have more fun than anyone has a right to. A hobby would just be rubbing it in."

LAST BOOK READ:
Robert Graves, The Greek Myths. "They were the original super-heroes."

LATEST ACCOMPLISHMENT:
Drew the 50th anniversary edition of BATMAN. "It's like being a part of history."

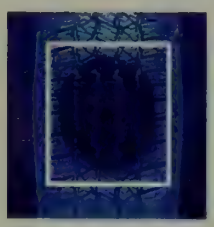
WHY I DO WHAT I DO:
"If you could live your dream AND draw your fantasies, wouldn't you?"

QUOTE:
"ZAP!! POW!!! %&[illegible]@&@!!"*

PROFILE:
Soft-spoken, imaginative, dedicated. Works well in confined spaces.

HIS SCOTCH:
Dewar's "White Label," on the rocks. "Doing an issue of The Question is fun, but it's still one frame at a time. Which means when I finish, a Dewar's is definitely the answer."

EVEN AT 185 MPH, GOODYEAR TECHNOLOGY CAN KEEP YOU CLINGIN' IN THE RAIN.



Wet or dry, this is all that touches the road: the contact patch.

The next time you find yourself caught on the road under a thundercloud, think about this:

Nobody knows more about wet weather traction than Goodyear.

That's because Goodyear has spent years of research, years of testing, and millions of dollars in development finding the best way to keep your tires in touch with the pavement in the rain.

The result has been a series of milestone achievements.

It was Goodyear that created the racing tire that holds a Formula One car to a wet track at speeds in excess of 185 mph.

It was Goodyear that first pioneered the all-season tire some 14 years ago. And today, there are fourth generation Goodyear all-season tires: The Invicta radial family.

How well have they proved themselves?

Well enough to impress some of the toughest and best critics. The engineers who design cars like the Chrysler Town & Country, Lexus LS 400, Buick Park Avenue Ultra and Toyota Camry V6.

They've chosen Invicta radials as original equipment for those cars. And for the best of reasons.

Goodyear Invicta radials were chosen after rigorous comparisons with other makes of tires. On a minimum of 22 different factors, including treadwear, noise, durability and wet traction.

Which is something to consider the next time you replace your tires.

Goodyear Invicta radials. For long-lasting wet weather traction year-round. Even if you never drive over 65 mph.

At signs of trouble, Goodyear all-season Invicta radials pull through for you.

The steel-belted radial struction and all-season mpound of the Invicta S mean lasting value.

Invicta radials passed over 10 million miles of tests with flying colors. In both wet and dry.

The right rain gear for the contents of your car: Goodyear Invicta GS.

Toyota Camry V6

Buick Park Avenue Ultra

Chrysler Town & Country

You'll find Invicta GS, GL or GA(L) radials on some of the best vehicles in America. One reason: their wet weather ability.

Goodyear wins the most important tests of all.

Everybody always talks about the weather. Goodyear has done something about it.

GOODYEAR

THE BEST TIRES IN THE WORLD HAVE GOODYEAR WRITTEN ALL OVER THEM.

FORBES rates funds separately in bull and bear markets. There are two advantages to this approach over a simple straight-line performance grade. One is that it makes explicit the fact that funds tend to do well in only one kind of market environment. The other is that it enables you to get a good sense of the risk in a fund. Funds with the worst bear market grades are the riskiest. This is key to an investment decision: You trade off risk against return.

The chart opposite displays the three market cycles over which we rate stock funds. Funds with records across three up periods are compared with one another and graded on the curve for bull market performance. Funds with only two segments of bull market performance are graded separately against one another. Bear market grades are awarded in similar fashion. Balanced funds, which invest in a mix of stocks and bonds, are evaluated over three market cycles, too, determined by a blend of a stock and a bond index; see the chart on page 252.

Foreign stock funds are graded against one another in a similar way. Their up and down segments are pictured on page 258. Global stock funds, which buy a mix of U.S. and foreign securities, are graded separately; that table begins on page 256.

Junk bonds, which have a large element of equity-like behavior in their fluctuations, also move in cycles. Junk bond funds, page 278, are rated over two cycles. But high-grade bonds don't move in long trend lines at all. Thus we compute separate bull and bear market grades for taxable bond funds, page 268, by dividing the last five years into individual bull and bear months. Municipal bond funds, which begin on page 280, are graded this way, too.

Patrick McDonnell

The "average annual total return" shows the compound annual return of the fund over the full rating period—three full market cycles in the case of stock funds, two cycles for junk bond funds, and five years for the other bond funds. This and the other performance figures—yield and 12-month total return—are net of expenses taken off the top by the fund sponsor. That's because expenses come out before dividends are distributed. Those distributions are in turn used, along with the fund net asset values printed in the daily newspapers, to calculate a performance figure. In the calculations of total return we assume that a distribution is reinvested in additional shares of the fund at the end of the month in which the payout went ex-dividend.

Why do we print expense ratios if overhead costs are already reflected in performance numbers? Because they are the one component of performance that is very predictable. A lucky manager can put his fund at the top of a chart in spite of an excessive management fee or high overhead. The next year he may not be so lucky. But management fees and other expenses will continue as a drag on performance. Expenses as we define them include management fees, 12b-1 "distribution" fees and overhead. They do not include interest or brokerage commissions for the fund's trading.

Our performance numbers—both those display the tables and those used to award grades—do no into account sales charges. Thus we are measuring p lio management skills rather than investment result only exception is in the "hypothetical investment re column of the honor roll. Performance and other da as of June 30.

Sometimes a fund sponsor merges a large fund bad record into a small fund with a clean record. We this transaction as if the merger had gone the reverse thus preserving the large fund's performance history explains why our performance numbers for several differ from those claimed by the funds. Also, we d expunge a fund's history when its management char

Funds marketed by several brokers, including M Lynch and Prudential, give investors a choice bet shares with a front-end load and little or no 12b-1 fee shares with a declining back-end load and fairly high 1 fees. We report performance fo former type of shares but assets fo entire fund.

Yield is the sum of dividends investment income over the pa months, divided by the June 30 asset value. It may differ from the day yield as defined by the Secu & Exchange Commission.

To be included in the annual su a fund must have a minimum in ment below $100,000 and be ope the general public. An exception to latter rule is made for certain w held membership-only funds, suc those of the American Associatio Retired Persons. Exchange funds, a dying breed that u tax laws cannot accept new clients, are no longer cover

You won't find brand-new funds in this survey. A f must have 12 months of performance data before we a to our catalog. It also must reach a certain size: $25 mil for domestic equity funds or foreign funds of any t $100 million for bond funds and tax-free money mar $500 million for taxable money markets. Our roste money market funds is very short because it is confine the ones with the lowest expense ratios, for rea explained on page 292.

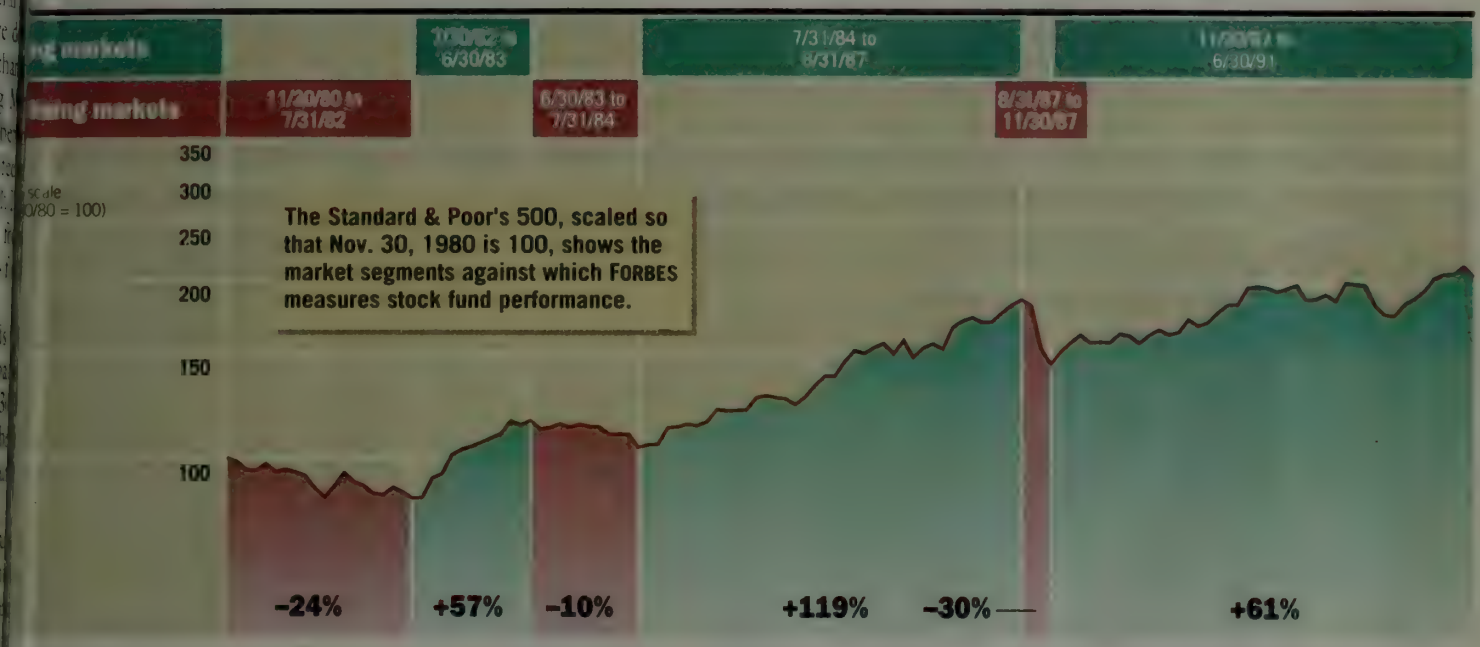
The Forbes honor roll of stock funds that have turne the best and most consistent performance in the appears on page 160. New this year are tabulations of w we call Best Buys among Ginnie Mae, junk bond, balan portfolio, small company and municipal bond funds. winners in these categories have to show both g performance and low expenses.

Phone numbers appear in the distributor listing at back of the survey, beginning on page 294. Since m funds maintain 800 numbers, you can also find th quickly by calling the national directory assistance nu ber, 800-555-1212.

Much of the raw data for this issue comes from Investment Technologies in Rockville, Md. and Lip Analytical Services in New York City.

tock funds

table covers funds that have at least $25 million in , and at least 12 months of performance history. ES grades stock funds against the three market cycles e S&P 500. To be graded, a fund must have been in nce for at least two of the market cycles—that is, June 30, 1983. Balanced funds, global stock funds foreign stock funds are graded separately against different benchmarks (see pages 252, 256 and 258). The fund's name is followed by that of its distributor; the table of distributors at the end of the fund survey has phone numbers. Closed-end funds have no distributor; they can be bought and sold in the secondary market and are traded just like common stock. A table of closed-ends trading at discounts to net asset value appears on page 250.



Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 11/80 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
		AAL Capital Growth Fund/AAL	—*	10.0%	2.2%	$223	56%	4.75%	*$1.41*
		AARP Growth–Capital Growth/Scudder	—*	-0.5	2.2	214	-2	none	1.11p
		AARP Growth–Growth & Income/Scudder	— *	7.6	4.8	334	24	none	1.03
C	D	ABT Growth & Income Trust[1]/ABT	9.1%	0.7	3.3	88	-8	4.75	*1.29*
F	A	ABT Utility Income Fund/ABT	10.6	2.0	5.6	141	-2	4.75	*1.25*
B	C	Acorn Fund/Acorn	12.9	-1.4	1.6	969	2	[illegible]	0.82
C	B	Adams Express/closed-end	12.4	10.6	3.5	597	5	NA	0.60
		Addison Capital Fund/Addison	— *	5.4	1.2	29	-1	3.00	*2.38*
		Advantage Growth Fund/Advest	— *	6.6	0.8	32	7	4.00b	*2.33*
D	A	Aegon USA Growth[1]/Aegon	12.2	5.2	2.4	38	3	4.75	*0.99p*

Fund rated for two periods only; maximum allowable grade A. * Fund not in operation for full period. † Closed to new investors. § Distributor may impose demption fee, which proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending in force.* b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not ailable. [1]Formerly MidAmerica Mutual Fund.

Distributor table, page 294. Rules, page 210.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 11/80 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Ann expe per 1
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.
C	D	AFA–Natl Aviation & Tech/AFA	8.7%	–10.5%	0.6%	$69	–17%	4.75%	$1.
■ D	■ D	AFA–Natl Telecommun & Tech/AFA	— *	–13.0	none	31	–22	4.75	2.
C	B	Affiliated Fund/Lord Abbett	13.3	3.2	4.4	3,379	–5	6.75	0.
B	C	Aim Equity–Charter Fund/AIM	13.3	15.7	2.0	196	118	5.50	1.
A+	F	Aim Equity–Constellation Fund/AIM	11.5	5.6	none	235	83	5.50	1.
A+	D	Aim Equity–Weingarten Fund/AIM	15.6	10.3	0.6	1,663	143	5.50	1.
■ B	■ D	Aim Summit Fund/AIM	— *	10.4	1.8	395	29	—	0.
		Alger Fund–Small Capitalization/Alger	— *	8.9	none	48	57	5.00b	2.
		Alliance Counterpoint Fund/Alliance	— *	10.2	1.2	55	–4	5.50	1.
B	D	Alliance Fund#/Alliance	10.5	5.2	1.5	672	–7	5.50	0.
C	D	Alliance Global–Small Cap#/Alliance	7.1	–14.8	none	79	–15	5.50	2.
C	B	Alliance Growth & Inc/Alliance	14.2	5.8	4.1	388	5	5.50	1.
A	D	Alliance Quasar Fund#/Alliance	12.6	–9.1	0.3	315	–8	5.50	1.
A+	■ F	Alliance Technology Fund/Alliance	— *	–6.8	none	150	–10	5.50	1.
		Charles Allmon Trust[1]/closed-end	— *	6.6	5.2	127	–1	NA	1.
D	D	AMA Family of Funds–Classic Growth/AMA	7.0	–2.2	3.2	25	–11	4.75	2.
C	B	Amcap Fund/American Funds	13.7	4.3	2.0	2,201	2	5.75	0.
C	A	American Capital Comstock/American Cap	14.4	4.0	2.9	875	–8	8.50	0.
C	A	American Capital Emerging Grow[2]/American Cap	12.9	10.2	0.4	262	8	5.75	1.
B	D	American Capital Enterprise/American Cap	9.9	6.0	1.0	602	–2	5.75	0.
C	B	American Capital Growth & Inc[3]/American Cap	12.1	3.1	3.2	155	–7	5.75	1.
C	A	American Capital Pace Fund/American Cap	15.1	4.2	2.3	2,349	–4	5.75	1.
		American Gas Index Fund/Rushmore	— *	–8.9	5.2	126	37	none	0.
F	A	American Growth Fund/American Growth	9.3	5.6	3.4	54	–9	8.50	1.
D	F	American Investors Growth/Amer Investors	–0.4	–12.1	0.5	59	–20	8.50	1.
D	A	American Leaders Fund/Federated	14.6	9.3	2.6	148	–1	4.50	1.
D	A	American Mutual Fund/American Funds	15.3	7.3	4.9	3,899	12	5.75	0.
B	C	American National Growth/Securities Mgmt	13.0	7.3	1.6	107	0	8.50	1.
D	A	American National Income/Securities Mgmt	14.5	11.2	3.6	54	13	8.50	1.
B	B	AMEV Capital Fund/AMEV	13.8	1.7	1.6	169	5	4.75	1.
A	■ C	AMEV Fiduciary Fund/AMEV	— *	–0.2	1.0	35	–1	4.50	1.
A	C	AMEV Growth Fund/AMEV	14.3	5.8	1.2	277	8	4.75	1.
B	C	Amway Mutual Fund/Amway	11.2	11.9	1.1	47	15	3.00	1.
F	A	Analytic Optioned Equity Fund/Analytic	10.9	6.6	3.6	107	–1	none	1.
		API Trust–Growth/Amer Pension	— *	9.8	none	29	–6	none	2.
		ASO Outlook Group Equity/Winsbury	— *	4.0	3.0	31	112	3.00	1.
		Associated Planners Stock Fund/Assoc Plan	— *	13.4	0.8	28	38	4.75	2.

■ Fund rated for two periods only; maximum allowable grade A. * Fund not in operation for full period. † Closed to new investors. § Distributor may im redemption fee, which proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pen or in force.* #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for e fund. ** Available only through monthly contractual plan. b- Includes back-end load that reverts to distributor. p Net of absorption of expenses by sponsor. NA: Not applicable or not available. [1]Formerly Growth Stock Outlook Trust. [2]Formerly American Capital Venture Fund. [3]Formerly Fund of Amer

Distributor table, page 294. Rules, page 210.

n some parts of the world, this isn't off-road driving.

st you forget that the Range Rover designed for terrain even more chal- ing than, say, Rodeo Drive, we bring this reminder of Range Rover's other ral habitats.

Typhoon drenched trails.

Boulder covered slopes.

Gullies, tundras, ravines and bayous.

Places where Range Rover's massive er, Herculean suspension and permanent 4-wheel drive make it possible to get to civilization. Instead of away from it.

So while every Range Rover comes with a supreme level of comfort, every Range Rover also comes with a level of capability born of endless refinement in decidedly unrefined conditions.

And you can be in one for as little as $36,500.* Just call 1-800 FINE 4WD for the name of a dealer near you.

After all, though many cars boast of extensive road testing, Range Rover brings you something even more reassuring.

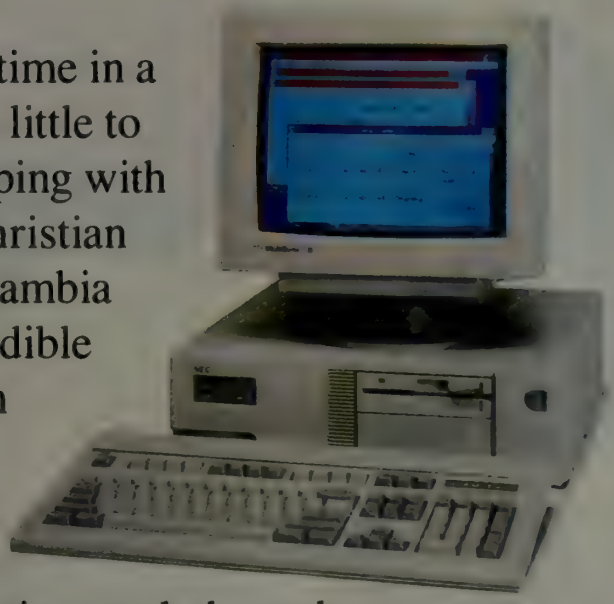
Decades of no-road testing.

LAND ROVER RANGE ROVER

C&C Computers and Communications

8:30 AM

NEC helps the children of Unda-Unda get food for breakfast and food for thought.



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The communications needs of the Great Lakes region are among the most demanding in the country. That's why we always stay a step ahead, anticipating those needs and creating better ways to serve and satisfy our customers. We put the first mobile phone system in the U.S. into operation, we have the largest voice messaging network in the country, and we currently have two fiber optic tests in market for new technology that will lead the way in bringing the information age to the home.

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formance DOWN ts markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
	Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
	Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
+ F	Axe-Houghton Growth/USF&G	9.9%	19.1%	0.6%	$79	12%	5.75%	*$1.52*
	Babson Enterprise Fund/Jones & Babson	— *	3.0	1.0	113	17	none	1.22
D	Babson Growth Fund/Jones & Babson	10.4	3.0	2.2	236	–9	none	0.86
	Babson Value Fund/Jones & Babson	— *	6.9	3.7	27	9	none	1.04
	Baird Blue Chip Fund/Baird	— *	7.8	1.6	44	30	5.75	*1.55*
B	Baker, Fentress & Co/closed-end	9.9	–6.3	3.3	394	–12	NA	0.68
	Baron Asset Fund/Baron	— *	–2.0	1.4	46	–16	2.00b	*1.80p*
A	Bartlett Capital–Basic Value/Bartlett	— *	0.3	3.7	93	–15	none	1.21
D	Berger One Hundred/Berger	12.2	17.7	none	37	100	none	*2.62p*
	Bergstrom Capital/closed-end	19.2	29.2	2.2	89	22	NA	0.99
C	Wm Blair–Growth[1]/Wm Blair	11.6	5.9	1.6	72	2	none	0.90
	Blue Chip Value Fund/closed-end	— *	8.7	9.7	71	–2	NA	1.45
C	Boston Co Capital Appreciation/Boston Co	12.0	–3.4	1.9	478	–21	none	*1.18*
	Boston Co Special Growth Fund/Boston Co	— *	9.6	0.2	36	–16	none	*1.77*
	Brandywine Fund/Brandywine	— *	1.3	1.6	445	55	none	1.12
D	Bull & Bear Capital Growth/Bull & Bear	4.3	–26.0	none	44	–38	none	*2.40*
A	Burnham Fund/Burnham	12.2	4.7	5.4	122	–9	5.00	1.10
	Calvert-Ariel Appreciation Fund/Calvert	— *	9.0	1.0	48	187	4.75	*0.70p*
	Calvert-Ariel Growth Fund/Calvert	— *	0.5	1.0	248	0	†	*1.31*
	Calvert Social Inv–Equity/Calvert	— *	5.1	0.6	37	68	4.75	*1.00p*
	Capital Income Builder/American Funds	— *	14.9	5.1	416	87	5.75	*1.01*
C	Cardinal Fund/Cardinal	14.1	8.1	3.4	212	7	8.50	0.69
	Carnegie-Cappiello–Growth/Carnegie	— *	3.6	1.1	78	0	4.50	*1.78*
	Carnegie-Cappiello–Total Return/Carnegie	— *	–0.6	5.6	64	–21	4.50	*1.58*
C D	Central Securities/closed-end	8.7	6.0	1.7	123	0	NA	0.98
A	Century Shares Trust/Century Shares	16.3	9.2	2.6	147	3	none	1.03
A+	CGM Capital Development/TNE	20.5	22.4	0.4	238	14	†	0.94
C C	Cigna Growth Fund/Cigna	11.1	0.6	1.4	166	–11	5.00	*1.19*
	Cigna Utilities Fund/Cigna	— *	3.6	5.6	73	10	5.00	*1.27*
	Cigna Value Fund/Cigna	— *	2.8	1.6	110	21	5.00	*1.24*
	Clipper Fund/Pacific Finl	— *	6.0	2.6	137	–9	none	1.18
B	Colonial Growth Shares Trust/Colonial	12.0	2.4	1.8	129	–3	5.75	*1.03*
	Colonial Small Stock Index Trust/Colonial	— *	–14.3	0.4	29	–33	5.75	*1.69*
	Colonial US Equity Index Trust/Colonial	— *	6.1	1.8	42	11	5.75	*1.62*
	Colonial VIP Equity–Diversified Ret/Colonial	— *	0.5	3.9	31	16	5.00b	*2.25p*
A C	Columbia Growth Fund/Columbia	14.3	5.8	1.9	380	15	none	0.88
	Columbia Special Fund/Columbia	— *	0.5	0.1	202	42	none	1.21

und rated for two periods only; maximum allowable grade A. * Fund not in operation for full period. † Closed to new investors. § Distributor may impose emption fee, which proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending in force.* b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. rmerly Growth Industry Shares.

Distributor table, page 294. Rules, page 210.

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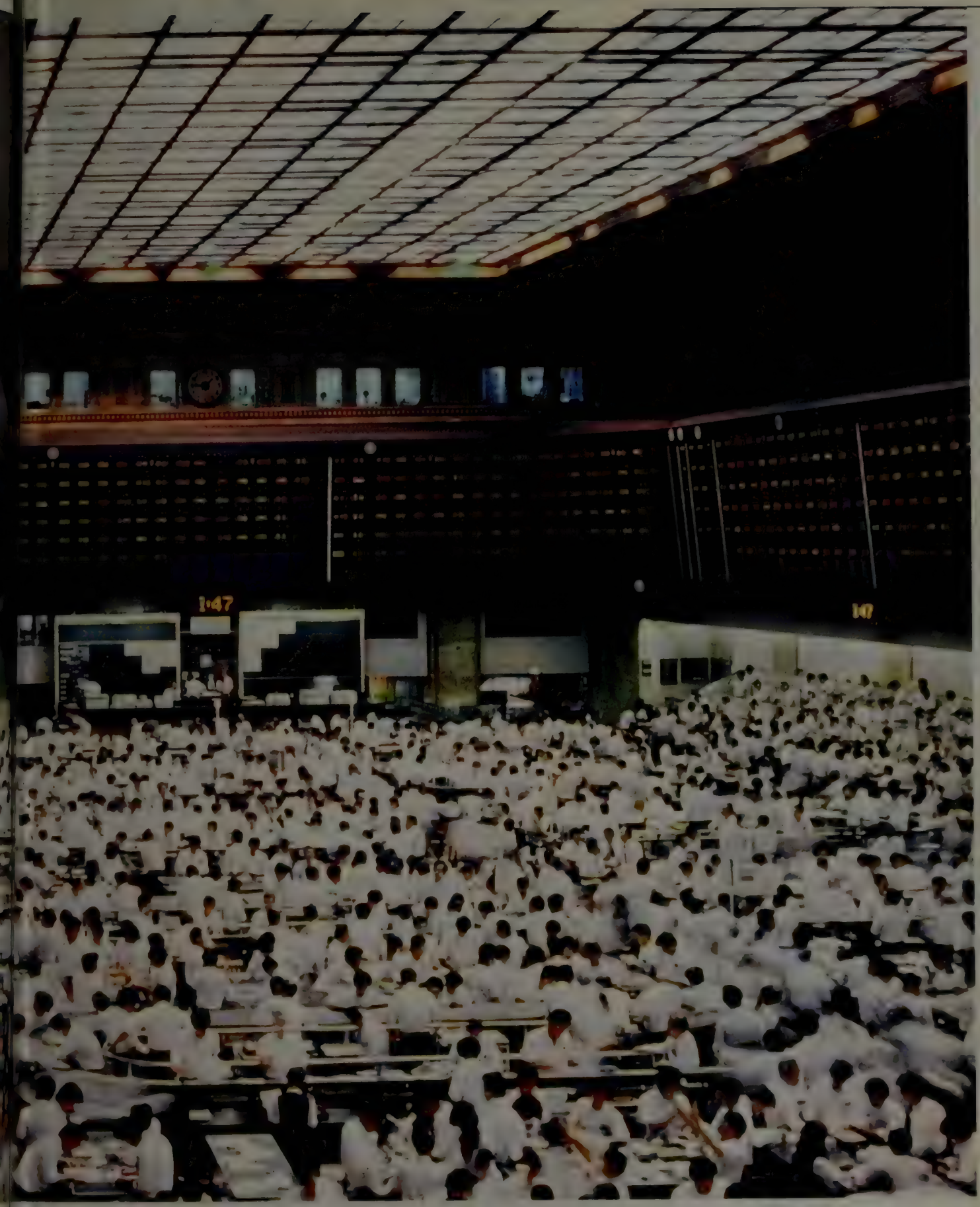

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 11/80 to 6/91	Total return Last 12 months	Y
		Standard & Poor's 500 stock average	14.2%	7.4%	3
		Forbes stock fund composite	12.2%	6.0%	2
		Common Sense–Growth/Common Sense	— *	5.4%	[illegible]
		Common Sense–Growth & Inc/Common Sense	— *	2.7	2
D	A	Composite Growth Fund/Murphey	13.0%	10.7	2
		Composite Northwest 50 Fund/Murphey	— *	11.7	[illegible]
		Connecticut Mutual–Growth/Phelps	— *	2.7	2
F	■ A	Copley Fund/Copley	— *	4.1	no
		Counsellors Capital Appreciation/Counsellors	— *	2.3	1
		Counsellors Emerging Growth/Counsellors	— *	2.9	[illegible]
		Counsellors Tandem Securities/closed-end	— *	10.6	C
C	C	Country Capital Growth Fund/Country Cap	11.7	5.7	2
		Cowen Income + Growth Fund/Cowen	— *	5.7	4
C	C	Dean Witter American Value/Dean Witter	10.9	13.8	C
		Dean Witter Cap Growth Secs/Dean Witter	— *	14.6	C
■ D	■ D	Dean Witter Devel Growth Secs/Dean Witter	— *	–5.2	no
C	■ A	Dean Witter Div Growth Secs/Dean Witter	— *	7.1	3
D	■ C	Dean Witter Natural Res Devel/Dean Witter	— *	–3.3	[illegible]
		Dean Witter Option Income/Dean Witter	— *	11.4	8
		Dean Witter Utilities Fund/Dean Witter	— *	6.3	5
		Dean Witter Value-Added Mkt–Equity/Dean Witter	— *	5.8	[illegible]
D	A	Delaware Group Decatur Fund–I/Delaware	13.9	–0.2	6
		Delaware Group Decatur Fund–II/Delaware	— *	3.9	4
		Delaware Group DelCap Fund–I/Delaware	— *	5.3	2
A	C	Delaware Group Trend Fund/Delaware	14.2	–4.7	[illegible]
A	B	Dodge & Cox Stock Fund/Dodge & Cox	15.1	4.5	3
		Dreyfus Capital Value Fund/Dreyfus	— *	13.4	7
D	B	Dreyfus Fund/Dreyfus	11.9	1.9	4
C	D	Dreyfus Growth Opportunity Fund/Dreyfus	7.8	2.6	2
D	B	Dreyfus Leverage Fund/Dreyfus	11.4	9.5	4
		Dreyfus New Leaders Fund/Dreyfus	— *	3.3	[illegible]
		Dreyfus Peoples Index/Dreyfus	— *	1.9	1
		Dreyfus Strategic Aggres Inv/Dreyfus	— *	6.6	no
		Dreyfus Strategic Investing/Dreyfus	— *	12.6	1
C	C	Dreyfus Third Century Fund/Dreyfus	9.8	10.9	1
		Eaton Vance Equity-Income/Eaton Vance	— *	1.4	5
C	B	Eaton Vance Growth Fund/Eaton Vance	13.1	2.8	1
D	B	Eaton Vance Special Equities/Eaton Vance	11.5	10.6	no
C	B	Eaton Vance Stock Fund/Eaton Vance	12.6	3.9	4

■ Fund rated for two periods only; maximum allowable grade A. * Fund not in operation to period. † Closed to new investors. § Distributor may impose redemption fee, which proceeds revert fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (h load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of absor

Distributor table, page 294. Rules, page 210.

Assets 91	% change 91 vs 90	Maximum sales charge	Annual expenses per $100
			$1.29
3	17%	8.50%	$1.53
6	13	8.50	1.37
8	-2	4.00	*1.22*
9	74	4.50	*1.26p*
33	-17	6.25	1.19
28	-7	none	1.50p
08	45	none	1.04p
31	0	none	1.25p
38	5	NA	2.33
82	1	3.00	0.82
32	-27	4.85	*2.04*
24	22	5.00b	*1.70*
50	134	5.00b	*1.92*
00	3	5.00b	*1.98*
88	2	5.00b	*1.51*
33	-16	5.00b	*1.80*
39	-22	5.00b	*2.11*
12	19	5.00b	*1.67*
39	-6	5.00b	*1.90*
42	-11	8.50	0.70
86	3	4.75	*1.25*
33	74	4.75	*1.41*
79	-11	4.75	1.30
239	52	none	0.65
760	12	4.50	*1.20*
715	-1	none	0.77
515	1	none	0.98
479	1	4.50	1.05
161	-12	none§	*1.42*
54	178	none§	0.00
58	-28	3.00	*1.50p*
122	8	4.50	*1.50p*
260	32	none	1.05
53	25	6.00b	*1.43p*
130	43	4.75	*0.95*
61	2	4.75	*1.06*
85	-4	4.75	*0.99*

penses by fund sponsor NA: Not applicable or available.

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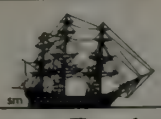

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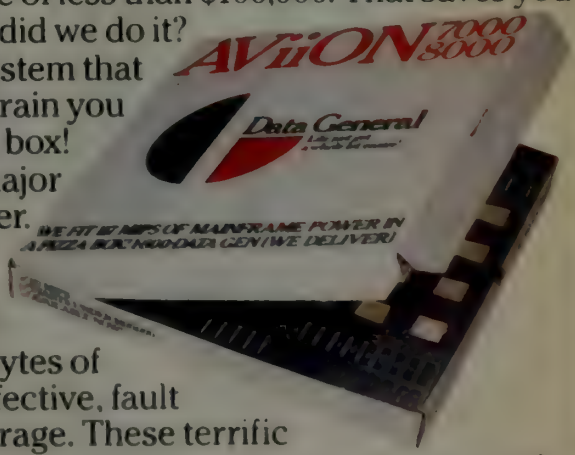

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expense per $1
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
D	■A	Eaton Vance Total Return Trust/Eaton Vance	— *	7.8%	6.2%	$477	-1%	4.75%	*$1.19*
		Eclipse Financial Asset-Equity/Eclipse	— *	1.2	2.6	135	-32	none	1.18
		Emblem-Earnings Momentum/Winsbury	— *	7.0	1.6	31	15	4.00	1.09
		Emblem-Relative Value/Winsbury	— *	6.9	2.3	163	27	4.00	0.90
B	B	Enterprise Group-Growth/Enterprise	15.1%	7.0	1.2	64	5	4.75	*1.60*
		Enterprise Group-Growth & Income/Enterprise	— *	4.3	3.9	31	-12	4.75	*1.50*
		Equitable Funds-Growth#/Equitable	— *	13.4	0.3	25	36	5.25	*1.40*
C	■C	Equity Strategies Fund/EQSF	— *	-5.6	none	64	-7	‡	1.17
B	C	Evergreen Fund/Lieber	11.9	6.1	1.4	716	-3	none	1.17
■A	■B	Evergreen Limited Market Fund/Lieber	— *	7.1	2.9	45	6	†	1.33
D	A	Evergreen Total Return Fund/Lieber	14.0	6.0	6.0	1,109	-10	none	1.23
		Evergreen Value Timing Fund/Lieber	— *	6.8	2.5	42	8	none	1.50
F	C	FBL-Growth Common Stock/FBL	7.6	11.6	5.2	36	2	5.00b	1.62
		Federated Growth Trust/Federated	— *	6.1	3.4	221	23	none	1.01
C	■A	Federated Stock Trust/Federated	— *	6.0	2.6	367	-18	none	1.00
		Fidelity Blue Chip Growth Fund/Fidelity	— *	12.1	0.9	190	27	3.00	1.35
		Fidelity Capital Appreciation/Fidelity	— *	-2.5	1.1	1,339	-35	3.00	0.93
A	D	Fidelity Contrafund/Fidelity	15.0	21.0	0.4	601	12	3.00	1.06
A+	B	Fidelity Destiny Portfolio I/Fidelity	18.3	12.3	0.7	2,024	10	**	0.44
		Fidelity Destiny Portfolio II/Fidelity	— *	14.5	1.5	326	48	**	0.80
		Fidelity Disciplined Equity/Fidelity	— *	8.6	2.0	133	7	none	1.24
D	A	Fidelity Equity-Income/Fidelity	14.8	3.3	6.5	4,089	-14	2.00	0.70
B	B	Fidelity Fund/Fidelity	13.8	6.8	4.0	1,257	9	none	0.66
		Fidelity Growth & Income/Fidelity	— *	14.2	2.8	2,433	28	2.00	0.86
■A	■D	Fidelity Growth Company/Fidelity	— *	12.5	none	1,024	52	3.00	1.14
		Fidelity Low-Priced Stock Fund/Fidelity	— *	15.2	1.2	214	96	none	1.50
A+	B	Fidelity Magellan Fund/Fidelity	21.8	9.7	1.7	15,252	9	3.00	1.06
		Fidelity OTC Portfolio/Fidelity	— *	13.7	0.2	811	11	3.00	1.37
		Fidelity Real Estate Investment/Fidelity	— *	14.6	5.2	55	21	none	1.47
■B	■C	Fidelity Retirement Growth[1]/Fidelity	— *	-3.4	0.7	1,454	-10	none	0.98
		Fidelity Select-Biotechnology/Fidelity	— *	49.9	0.1	483	208	3.00	1.63
		Fidelity Select-Chemicals/Fidelity	— *	12.9	0.5	27	24	3.00	2.50
D	■C	Fidelity Select-Energy/Fidelity	— *	-5.1	0.1	86	0	3.00	1.79
		Fidelity Select-Energy Service/Fidelity	— *	-17.3	0.2	57	-29	3.00	1.82
		Fidelity Select-Environ Service/Fidelity	— *	-6.7	none	92	-29	3.00	2.03
C	■B	Fidelity Select-Financial Services/Fidelity	— *	3.3	1.7	39	74	3.00	2.49
		Fidelity Select-Food & Agriculture/Fidelity	— *	12.8	0.9	73	132	3.00	2.22

■ Fund rated for two periods only; maximum allowable grade A. * Fund not in operation for full period. † Closed to new investors. § Distributor may impose redemption fee, which proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for entire fund. ** Available only through monthly contractual plan. b Includes back-end load that reverts to distributor. p Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Fidelity Freedom Fund.

Distributor table, page 294. Rules, page 210.

teinRoe High-Yield Municipals:

1 Over Past 5 Years

According to Lipper Analytical vices, Inc., SteinRoe High-Yield nicipals ranked first in total rn among the 15 funds in the -yield municipal bond category the 5-year period ended 6/30/91.* For the same period, High-Yield nicipals turned in a better per- mance record than many *taxable* nd funds, according to Lipper, still provided significant tax- ings benefits to investors. When nparing different investment ve- les be sure to consider the dif- ent features of the securities.

High-Yield Municipals delivered ne-year total return of 8.79%, a ear average annual total return 10.02% and an 11.39% average ual total return since the fund s established on 3/5/84.

The Fund's success can be attributed to its investment philosophy. The manager strives to provide superior results by capitalizing on opportunities for high-yield through medium- and lower-quality securities and careful use of higher-grade bonds. Because medium-and lower-quality securities tend to have greater credit and other risks, they generally offer a higher-yield. We manage these risks through intensive credit research, identifying those issues we believe to be more creditworthy than suggested by the market.

Before investing in any municipal bond fund, you should consider these investment basics. First, yield alone is not the best comparison. Instead, look at total return, which includes changes in share price and reinvestment of income and capital gain distributions. Second, past performance is no guarantee of future results. Third, share price and investment return will vary, so you may have a gain or loss when you sell shares. Finally, capital gains are subject to state, local and federal taxes; income may be subject to state and local taxes, and federal Alternative Minimum Tax.

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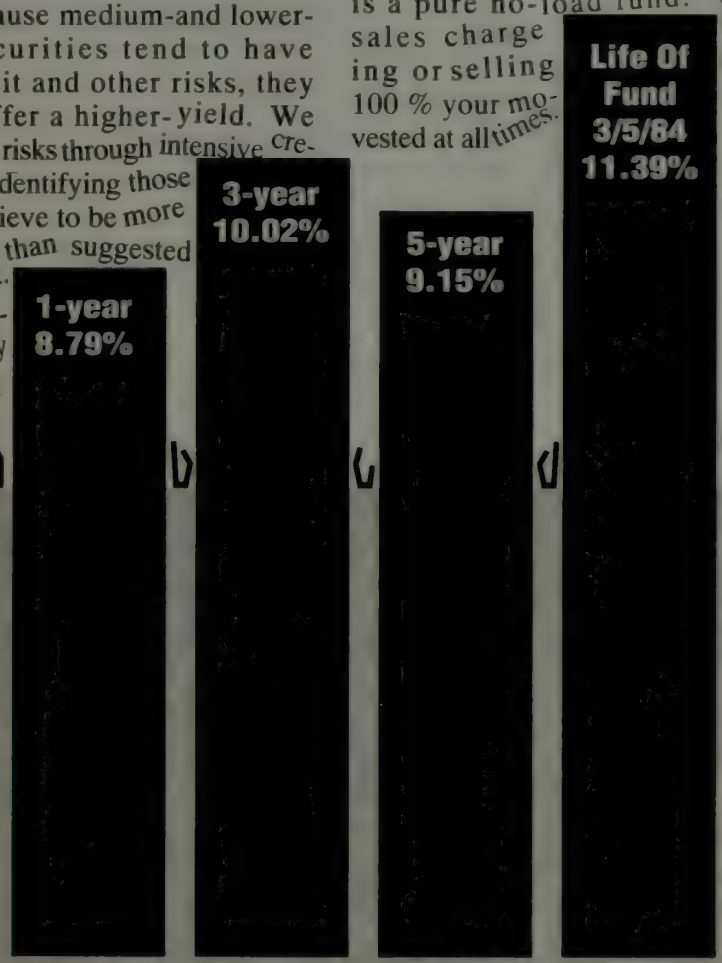

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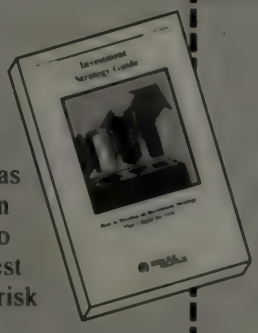

If you think you've heard it all before, this Guide was written for you. It's rich in information you can use to choose the investments best suited for your goals and risk tolerance.

*High-Yield Municipals ranked #6 out of 26 funds for the one-year period ended 6/30/91.

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expense per $1
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
A+	■ D	Fidelity Select–Health Care/Fidelity	— *	45.0%	0.5%	$639	119%	3.00%	$1.53
		Fidelity Select–Leisure/Fidelity	— *	–2.6	0.9	39	–24	3.00	2.27
		Fidelity Select–Medical Delivery/Fidelity	— *	43.3	none	119	166	3.00	1.94
		Fidelity Select–Paper & Forest Prods/Fidelity	— *	21.9	1.2	71	NM	3.00	2.49p
		Fidelity Select–Regional Banks/Fidelity	— *	15.7	1.3	29	331	3.00	2.51p
		Fidelity Select–Retailing/Fidelity	— *	17.4	none	30	184	3.00	2.54p
A	■ F	Fidelity Select–Technology/Fidelity	— *	12.8	0.6	92	–1	3.00	1.83
		Fidelity Select–Telecom/Fidelity	— *	–1.8	1.8	52	–34	3.00	1.97
D	■ A	Fidelity Select–Utilities/Fidelity	— *	7.9	2.8	194	45	3.00	1.65
		Fidelity Special Sits–Plymouth[1]/Fidelity	— *	13.4	3.7	209	8	4.75	*1.58*
B	D	Fidelity Trend Fund/Fidelity	10.6%	2.2	0.5	781	–7	none	0.61
		Fidelity Utilities Income/Fidelity	— *	9.8	5.7	318	76	none	0.94
B	C	Fidelity Value Fund/Fidelity	12.8	5.8	4.2	117	–1	none	1.06
C	■ C	Fiduciary Capital Growth/Fiduciary Mgmt	— *	3.3	1.3	30	21	none	1.50
C	D	Financial Dynamics Fund/Invesco	9.8	7.9	0.6	84	15	none	*1.15*
C	D	Financial Industrial Fund/Invesco	10.5	5.5	2.0	388	–6	none	*0.78*
B	B	Financial Industrial Income/Invesco	15.6	13.2	3.5	881	54	none	*0.94*
		Financial Series–Equity/Invesco	— *	11.6	2.8	35	1	none	1.00p
		Financial Series–Flex/Invesco	— *	10.3	5.0	58	11	none	1.00
		Financial Strategic–Finl Svcs/Invesco	— *	23.5	0.1	41	NM	none	1.28
		Financial Strategic–Gold/Invesco	— *	–8.0	0.1	45	14	none	1.32
		Financial Strategic–Health Sci/Invesco	— *	41.5	0.5	360	309	none	1.12
		Financial Strategic–Technology/Invesco	— *	4.5	none	39	–16	none	1.25
		Financial Strategic–Utilities/Invesco	— *	3.1	3.8	51	73	none	1.26
		First Eagle Fund of America/First Eagle	— *	–2.5	2.4	74	–18	none§	2.00p
		First Financial Fund/closed-end	— *	9.3	2.6	66	6	NA	1.55
		First Investors Blue Chip/First Inv	— *	2.7	1.8	66	53	6.90	*1.55p*
		Flag Investors Emerging Growth/Brown	— *	–7.3	none	43	–19	4.50	*1.50p*
		Flag Investors Quality Growth/Brown	— *	9.7	1.7	53	23	4.50	*1.25p*
		Flag Investors Telephone Income/Brown	— *	4.7	4.4	200	11	4.50	*0.92p*
■ F	■ A	Flex-funds–Growth Fund[2]/Flex	— *	18.5	5.9	29	15	none	*1.46*
		Flex-funds–Muirfield Fund/Flex	— *	13.9	4.5	34	13	none	*1.52*
		Fortress Utility Fund/Federated	— *	10.8	7.1	73	95	1.75b	1.03p
B	C	Founders Blue Chip/Founders	12.9	4.7	2.2	258	0	none	*1.07*
		Founders Frontier Fund/Founders	— *	9.2	1.2	72	1	none	*1.71*
B	C	Founders Growth Fund/Founders	12.3	2.5	1.5	100	–11	none	*1.45*
A	D	Founders Special Fund/Founders	11.4	17.6	1.5	121	69	none	1.20

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Distributor table, page 294. Rules, page 210.

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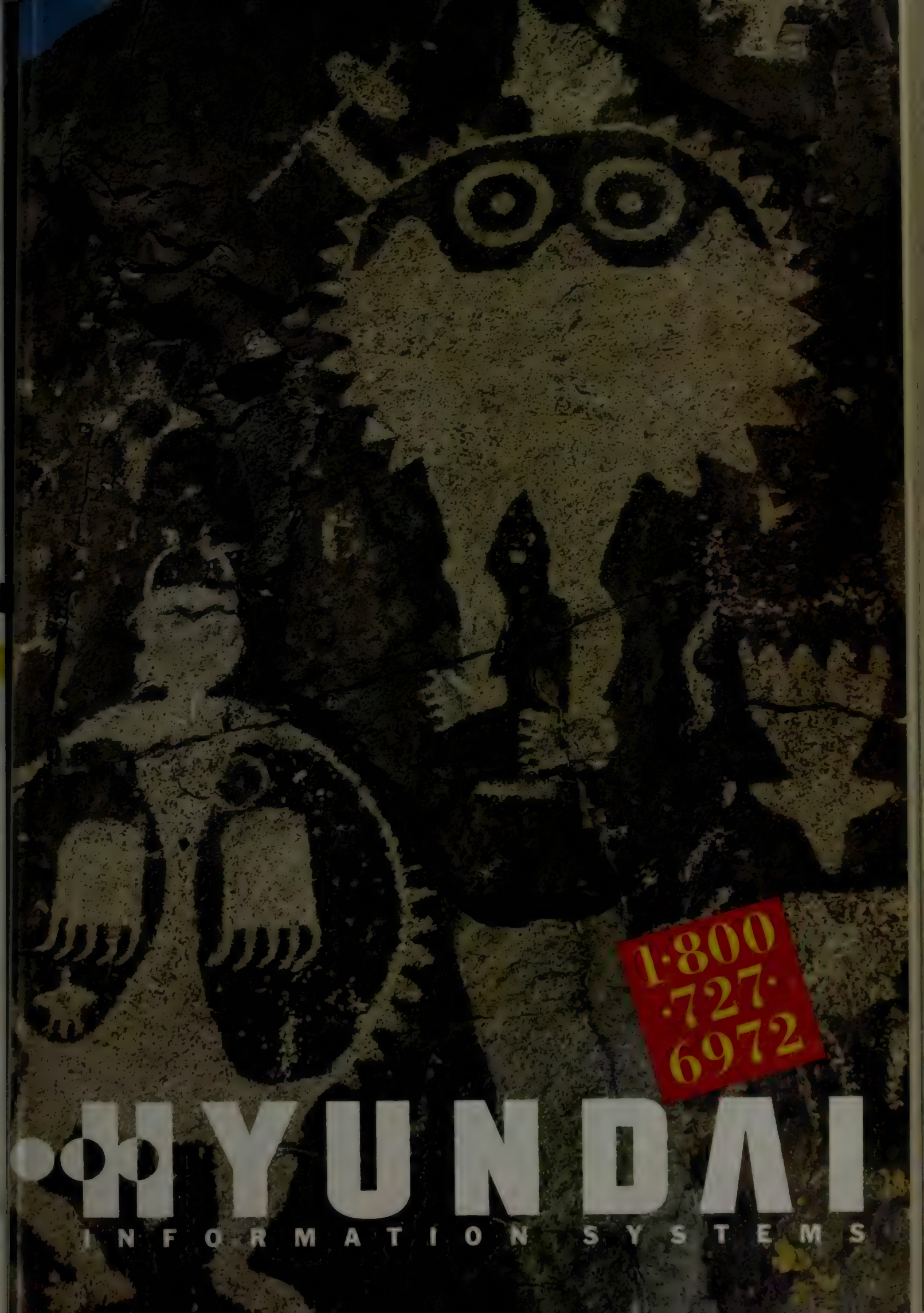
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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 11/80 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Annual expense per $1
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.2
B	C	FPA Capital Fund/Angeles Secs	11.6%	6.7%	1.2%	$84	4%	6.50%	$1.21
B	A	FPA Paramount Fund/Angeles Secs	16.9	14.5	4.0	235	7	†	0.9
		FPA Perennial Fund/Angeles Secs	— *	7.5	3.5	57	–3	6.50	1.2
B	D	Franklin DynaTech Fund/Franklin	10.4	4.7	2.0	45	1	4.00	0.79
B	D	Franklin Equity Fund/Franklin	11.7	5.0	2.0	375	–7	4.00	0.72
B	B	Franklin Growth Fund/Franklin	14.7	9.0	2.1	275	49	4.00	0.73
D	B	Franklin Premier Return/Franklin	9.7	3.1	3.4	32	–23	4.00	0.88
		Franklin Rising Dividends/Franklin	— *	20.1	1.9	49	20	4.00	*1.60*
F	A+	Franklin Utilities Fund/Franklin	16.0	8.5	7.2	1,031	33	4.00	0.60
		Freedom Inv–Gold & Govt/Freedom	— *	3.6	7.3	58	–16	3.00b	*1.88*
		Freedom Inv–Regional Bank/Freedom	— *	10.8	2.9	51	–17	3.00b	*2.07*
		Freedom Inv III–Environmental/Freedom	— *	–11.2	1.3	46	–25	4.50	*1.75*
A	B	Fundamental Investors/American Funds	15.6	2.9	3.0	965	16	5.75	*0.70*
		Gabelli Asset Fund/Gabelli	— *	8.4	4.4	442	16	none	*1.20*
		Gabelli Equity Trust/closed-end	— *	1.8	3.2	510	–5	NA	1.20
		Gabelli Growth Fund/Gabelli	— *	4.1	2.2	307	54	none	*1.50*
		Gabelli Value Fund/Gabelli	— *	6.5	4.4	779	–25	5.50	*1.35*
D	A	Gateway Index Plus Fund/Gateway	10.5	12.3	2.5	64	31	none	*1.34*
		General Aggressive Growth/Dreyfus	— *	5.5	1.9	55	12	none	*1.24*
A	D	General American Investors/closed-end	14.3	13.7	0.8	477	8	NA	1.07
		Gintel Capital Appreciation Fund/Gintel	— *	3.7	2.2	35	2	none	*2.10*
D	■A	Gintel Erisa Fund/Gintel	— *	0.2	4.2	80	–10	none	*1.60*
		GIT Equity Trust–Special Growth/GIT	— *	3.7	1.5	58	34	none	1.40
		Gradison Established Growth/Gradison	— *	5.9	2.9	155	11	none	*1.35*
		Gradison Opportunity Growth/Gradison	— *	4.6	1.8	30	13	none	*1.61*
B	B	Growth Fund of America/American Funds	14.1	5.6	2.3	2,563	17	5.75	*0.79*
		Growth Fund of Washington/Washington	— *	1.3	2.1	39	–25	5.00	*1.66*
		GT Global Growth–America/GT Global	— *	–11.4	none	90	33	4.75	*2.00*
A	B	Guardian Park Ave Fund/Guardian	15.7	3.7	1.7	259	2	4.50	0.67
		GW Sierra–Growth & Income/Gt Western	— *	6.7	2.5	34	61	4.50	*1.50*
B	D	John Hancock Growth Fund/Hancock	9.5	0.7	1.1	126	0	4.50	*1.46*
		H&Q Healthcare Investors/closed-end	— *	31.4	0.4	87	23	NA	1.65
		Harbor Capital Appreciation/HCA	— *	4.3	1.1	71	1	none	0.87
		Harbor Growth Fund/HCA	— *	12.6	0.6	193	18	none	0.93
		Harbor Value/HCA	— *	4.1	3.9	35	18	none	0.97
A+	F	Hartwell Emerging Growth/Keystone	9.4	0.6	none	48	67	4.75	*2.50*
		Helmsman–Disciplined Equity/SEI	— *	1.8	3.7	74	5	none	0.35

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Distributor table, page 294. Rules, page 210.

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 11/80 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Ann. exper per $
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.2
		Helmsman–Growth Equity/SEI	— *	8.6%	1.6%	$54	68%	none	$0.4
		Helmsman–Income Equity/SEI	— *	7.5	4.4	74	98	none	0.4
		Heritage Capital Appreciation/Heritage	— *	0.9	2.7	61	–8	4.00%	1.9
		HighMark Income Equity/Winsbury	— *	7.0	4.9	46	8	none	1.1
		HT Insight–Equity Fund/TBC	— *	3.9	3.1	30	42	4.50	1.6
		Wayne Hummer Growth Fund/Hummer	— *	13.1	2.2	37	38	none	1.3
A	B	IAI Regional Fund/IAI Funds	16.0%	8.2	1.8	325	70	none	1.0
C	B	IAI Stock Fund/IAI Funds	13.2	–2.0	1.8	93	16	none	1.0
		IDEX Fund/Idex	— *	8.0	1.1	161	73	8.50	1.3
		IDEX II/Idex	— *	8.3	1.2	98	6	5.50	1.4
		IDEX Fund 3/Idex	— *	8.3	1.3	170	4	†	1.3
		IDS Blue Chip Advantage/IDS	— *	7.0	2.3	54	214	5.00	0.8
B	■ D	IDS Discovery Fund/IDS	— *	4.4	1.2	189	10	5.00	0.7
B	C	IDS Equity Plus/IDS	12.7	6.9	2.2	397	–1	5.00	0.6
A+	D	IDS Growth Fund/IDS	13.3	2.3	1.9	739	–6	5.00	0.8
		IDS Managed Retirement Fund/IDS	— *	4.3	2.6	874	10	5.00	0.8
A	C	IDS New Dimensions Fund/IDS	16.4	12.2	2.0	1,316	44	5.00	0.8
D	B	IDS Progressive Fund/IDS	11.2	–0.2	3.5	131	–16	5.00	0.9
C	B	IDS Stock Fund/IDS	12.7	8.8	4.1	1,418	3	5.00	0.6
		IDS Strategy–Aggressive Equity/IDS	— *	3.3	1.2	352	11	5.00b	1.6
		IDS Strategy–Equity/IDS	— *	7.5	3.1	386	15	5.00b	1.6
		IDS Utilities Income/IDS	— *	7.4	6.2	252	28	5.00	0.8
		Inefficient-Market Fund/closed-end	— *	1.5	5.2	47	–7	NA	1.3
B	B	Investment Co of America/American Funds	15.9	8.3	3.7	7,643	30	5.75	0.5
C	D	ITB–Growth Opportunities/TNE	8.7	7.5	3.0	62	0	5.75	1.1
A	D	Investors Research Fund/Diversified	10.9	5.6	4.8	61	–9	6.75	0.8
C	A	Ivy Growth Fund/Ivy	15.6	7.3	2.0	209	3	none	1.2
B	A	Janus Fund/Janus	16.4	7.4	1.9	1,960	57	none	0.9
		Janus Twenty Fund/Janus	— *	10.8	1.0	547	166	none	1.0
		Janus Venture Fund/Janus	— *	11.9	0.3	745	221	none	1.0
D	B	JP Growth Fund/Jefferson-Pilot	12.9	3.8	2.2	28	2	5.50	0.8
		Kaufmann Fund/Kaufmann	— *	8.7	none	68	30	none§	3.4
		Kemper Blue Chip Fund/Kemper	— *	7.9	1.3	51	47	5.75	1.5
		Kemper Environmental Services/Kemper	— *	–1.5	none	65	–6	5.75	1.3
A	D	Kemper Growth Fund/Kemper	13.0	15.0	1.0	487	31	5.75	1.0
		Kemper Invest–Equity/Kemper	— *	9.1	none	372	10	3.00b	2.3
A	D	Kemper Summit Fund/Kemper	11.6	9.7	1.3	241	–11	5.75	0.8

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Distributor table, page 294. Rules, page 210.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
C	D	Kemper Technology Fund/Kemper	9.2%	–1.3%	1.9%	$538	–9%	5.75%	$0.82
A	D	Keystone America Omega/Keystone	10.1	11.1	1.5	47	9	4.75	*1.73*
B	D	Keystone Custodian K-2/Keystone	10.5	5.5	2.0	301	–7	4.00b	*1.64*
C	C	Keystone Custodian S-1/Keystone	10.2	6.1	2.0	164	–12	4.00b	*2.41*
B	D	Keystone Custodian S-3/Keystone	11.0	6.5	0.9	243	–8	4.00b	*1.58*
A	F	Keystone Custodian S-4/Keystone	6.3	6.6	none	561	–1	4.00b	*1.71*
		Kidder, Peabody Equity Income/Kidder	— *	11.2	2.4	90	36	4.00	*1.45*
		Legg Mason Special Investment/Legg Mason	— *	14.3	1.8	122	54	none	*2.16*
		Legg Mason Total Return Trust/Legg Mason	— *	2.5	2.9	26	5	none	*2.50*
■C	■B	Legg Mason Value Trust/Legg Mason	— *	–5.2	2.5	668	–19	none	*1.89p*
B	B	Lexington Corp Leaders Trust/Lexington	14.1	2.7	3.5	91	–2	none	0.67
C	C	Lexington Growth & Income[1]/Lexington	11.0	0.4	1.6	112	–7	none	1.04
B	F	Lexington Worldwide Emerg Mkts[2]/Lexington	7.1	–0.9	2.6	26	–8	none	1.42
		Liberty All-Star Equity Fund/closed-end	— *	12.1	9.4	530	2	NA	1.23
		Liberty Utility Fund/Federated	— *	10.9	7.0	177	173	4.50	1.02p
		Lindner Dividend Fund/Lindner	— *	8.9	8.5	186	21	none	0.87
D	A+	Lindner Fund/Lindner	16.8	–0.1	4.8	783	9	none	0.83
C	D	Lord Abbett Developing Growth/Lord Abbett	7.0	2.4	0.2	127	–10	6.75	*1.31*
■B	■C	Lord Abbett Value Appreciation/Lord Abbett	— *	4.4	2.5	155	–12	6.75	*1.18*
D	A	Lutheran Brotherhood Fund/Lutheran	14.1	5.1	1.8	322	3	5.00	1.05
		Mackenzie American Fund/Mackenzie	— *	–5.9	1.1	44	–20	5.75	*2.22*
		MainStay–Capital Appreciation/NYLife	— *	9.1	none	52	27	5.00b	*2.46*
		MainStay–Value Fund/NYLife	— *	11.9	1.7	40	20	5.00b	*2.48*
A	C	Mairs & Power Growth Fund/Mairs & Power	13.8	19.0	1.3	28	15	none	1.05
B	C	Horace Mann Growth Fund/Mann	12.1	9.1	3.6	114	9	†	0.78
B	C	Mass Capital Development Fund/Mass Finl	11.4	5.2	2.4	709	–9	5.75	*0.80*
B	D	Mass Financial Development/Mass Finl	10.7	0.3	2.8	213	–11	5.75	*0.83*
A	■D	Mass Financial Emerging Growth/Mass Finl	— *	2.6	none	188	–10	5.75	*1.40*
■B	■D	Mass Financial Special Fund/Mass Finl	— *	–4.0	1.0	107	–15	5.75	*1.51*
C	C	Mass Investors Growth Stock/Mass Finl	11.1	1.9	0.3	873	–6	5.75	*0.53*
B	C	Mass Investors Trust/Mass Finl	12.8	5.2	3.1	1,384	–2	5.75	*0.47*
C	C	Mathers Fund/Mathers	11.3	8.6	5.4	436	79	none	0.98
C	B	Merrill Lynch Basic Value#/ML Funds	14.6	5.3	5.1	2,365	–5	6.50	NA
C	A	Merrill Lynch Capital Fund#/ML Funds	15.6	8.7	5.1	2,011	45	6.50	0.58
		Merrill Lynch Devel Capital Mkts/ML Funds	— *	–4.0	6.2	112	8	4.00§	NA
		Merrill Lynch Fund for Tomorrow#/ML Funds	— *	6.5	2.4	444	–16	6.50	0.96
		Merrill Lynch Grow Inv & Retire#/ML Funds	— *	7.4	none	770	34	6.50	0.87

■ Fund rated for two periods only; maximum allowable grade A. * Fund not in operation for full period. † Closed to new investors. § Distributor may impose redemption fee, which proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for entire fund. b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Lexington Research Fund. [2]Formerly Lexington Growth Fund.

Distributor table, page 294. Rules, page 210.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 11/80 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
		Merrill Lynch Natural Res#/ML Funds	— *	0.8%	2.9%	$318	–22%	6.50%	$0.97
D	D	Merrill Lynch Special Value#/ML Funds	3.6%	–0.8	1.3	53	–6	6.50	1.88
		Merrill Lynch Strategic Div#/ML Funds	— *	2.0	6.0	316	–18	6.50	0.91
		Merriman Timed Capital Apprec/Merriman	— *	11.3	2.5	41	126	none	1.52p
		MetLife-State Street Cap Apprec/MetLife	— *	–1.7	0.4	63	7	4.50	*1.50p*
		MetLife-State Street Equity Inc/MetLife	— *	–6.4	5.8	45	–9	4.50	*1.50p*
		MetLife-State Street Equity Inv/MetLife	— *	–6.1	1.7	36	0	4.50	*1.50p*
		MFS Lifetime Capital Growth/Mass Finl	— *	8.1	1.2	281	19	6.00b	*2.38*
		MFS Lifetime Emerging Growth/Mass Finl	— *	9.4	none	106	5	6.00b	*2.75*
		MFS Lifetime Managed Sectors/Mass Finl	— *	–1.2	none	166	–15	6.00b	*2.50*
		MFS Lifetime Total Return/Mass Finl	— *	8.5	4.2	242	13	6.00b	*2.37*
		MFS Managed Sectors Trust/Mass Finl	— *	–0.4	0.2	108	–14	5.75	*1.77*
		Morgan Grenfell SmallCap Fund/closed-end	— *	–2.4	none	56	–6	NA	2.01
C	C	MSB Fund/Nationar	11.6	1.6	2.2	42	–18	none	1.39
A	B	Mutual Benefit Fund/Mutual Benefit	15.9	6.1	3.0	42	10	4.75	1.01
B	C	Mutual of Omaha Growth/Mutual of Omaha	11.6	–6.0	0.9	66	8	4.75	*1.29*
D	C	Mutual Series–Beacon/Heine Secs	10.6	2.6	3.8	448	–2	none	0.85
D	A+	Mutual Series–Mutual Shares/Heine Secs	15.3	4.1	4.4	2,705	–13	†	0.85
D	A+	Mutual Series–Qualified/Heine Secs	17.1	4.3	5.0	1,157	–14	†	0.89
D	C	National Industries Fund/Stonebridge	6.5	7.8	1.6	33	0	none	1.70
D	B	National Stock Fund/National Secs	11.1	2.9	1.6	207	–8	5.75	*1.41*
B	B	Nationwide Fund/Nationwide	15.3	11.8	2.5	565	11	7.50	0.62
C	B	Nationwide Growth Fund/Nationwide	14.6	4.7	3.3	245	0	7.50	0.68
		N & B Genesis Fund/N & B	— *	4.4	0.6	26	18	none§	2.00p
B	C	N & B Guardian Fund/N & B	13.4	8.5	2.6	582	4	none	0.86
A	C	N & B Manhattan Fund/N & B	14.1	3.8	1.5	398	–7	none	1.20
D	A	N & B Partners Fund/N & B	14.1	5.1	4.2	824	4	none	0.91
D	C	N & B Selected Sectors Plus Energy/N & B	8.3	2.5	1.9	387	–7	none	0.92
A	F	Neuwirth Fund/Wood Struthers	8.4	8.0	1.4	27	9	none	1.98
		New Economy Fund/American Funds	— *	0.7	2.5	891	–3	5.75	0.92
D	A	New England Balanced/TNE	11.3	5.6	3.9	59	1	6.50	*1.58*
A	B	New England Growth Fund/TNE	18.0	12.8	0.6	734	15	6.50	*1.23*
C	B	New England Retirement Equity/TNE	13.2	1.9	2.6	141	–3	6.50	*1.31*
A	C	New York Venture Fund/Venture	15.5	6.9	2.0	377	8	4.75	*1.00*
B	D	Newton Growth Fund/Newton	10.2	5.4	3.4	35	0	none	1.30
D	D	Niagara Share Corp/closed-end	7.4	–2.8	3.7	222	–6	NA	1.13
		Nicholas-Applegate Growth Eq#/Prudential	— *	1.9	0.2	103	–28	5.25	*1.16*

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Distributor table, page 294. Rules, page 210.

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A proven performer. The Fund's focus on stocks which pay relatively high dividends has produced strong returns since its 1985 introduction. As the chart shows, $10,000 invested when the Fund started would have grown to almost $23,000 by June 1991. In addition, the Fund has earned a 5-star (highest) rating from Morningstar, an independent mutual fund rating service that measures the performance of funds relative to the risks they take.

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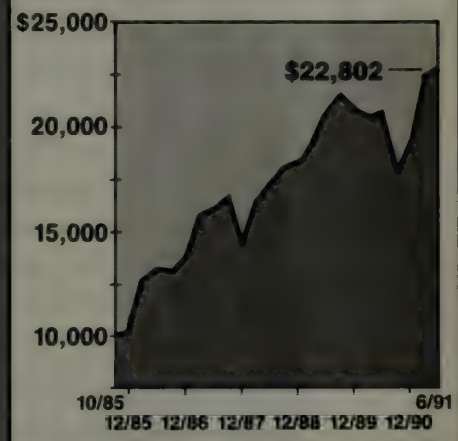

Average Annual Total Return as of 6/30/91	1 year	5 years	Since Inception
	9.80%	11.45%	15.67%

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*Chart shows cumulative total return 10/31/85 to 6/30/91. Figures include changes in principal value, reinvested dividends, and capital gains distributions. Total return represents past performance. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. There is no guarantee that the Fund can achieve its objectives. T. Rowe Price Investment Services, Inc., Distributor.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 11/80 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Annual expense per $10
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
B	A	Nicholas Fund/Nicholas	16.2%	11.7%	1.7%	$1,715	13%	none	$0.81
		Nicholas II/Nicholas	— *	13.3	1.5	454	6	none	0.72
		Nicholas Limited Edition/Nicholas	— *	14.8	0.8	115	61	none	1.07
B	C	Northeast Investors Growth/Northeast Inv	11.9	9.8	0.9	32	17	none	1.60
		Olympic Trust–Equity Income/Olympic	— *	6.9	3.8	63	–3	none	1.00p
		Oppenheimer Discovery/Oppenheimer	— *	6.9	0.9	87	40	4.75%	1.54
B	B	Oppenheimer Equity Income/Oppenheimer	14.9	3.7	5.4	1,393	5	8.50	0.78
C	F	Oppenheimer Fund/Oppenheimer	5.9	11.7	2.3	203	3	8.50	1.10
F	A+	Oppenheimer Premium Income[1]/Oppenheimer	12.0	4.3	4.0	169	–30	8.50	1.01
D	C	Oppenheimer Special Fund/Oppenheimer	9.3	9.4	2.5	551	0	8.50	0.93
■C	■D	Oppenheimer Target[2]/Oppenheimer	— *	6.3	1.5	314	149	5.75	1.33
A	D	Oppenheimer Time Fund/Oppenheimer	12.8	2.5	3.6	309	–8	8.50	0.95
B	C	Oppenheimer Total Return/Oppenheimer	11.0	5.4	3.5	455	7	5.75	0.98
		Oppenheimer Value Stock[3]/Oppenheimer	— *	9.6	2.8	46	11	5.75	*1.30p*
D	B	Over-the-Counter Securities Fund/USF&G	10.5	–3.1	0.6	245	–16	5.75	*1.47*
		Pacific Horizon–Aggres Growth/Concord Finl	— *	17.3	none	118	18	4.50	*1.55p*
		PaineWebber Blue Chip Growth[4]/PaineWebber	— *	0.6	0.3	106	–2	5.00b	*2.27*
		PaineWebber Dividend Growth/PaineWebber	— *	8.0	2.1	193	198	4.50	*1.50*
		PaineWebber Growth Fund/PaineWebber	— *	6.6	1.0	85	1	4.50	*1.62*
		PaineWebber Regional Finl Grow/PaineWebber	— *	21.2	2.3	43	–14	4.50	*1.67*
		Parkstone Equity/Winsbury	— *	–0.5	3.9	299	21	4.50	1.15p
		Parkstone High Income Equity/Winsbury	— *	8.2	4.7	151	57	4.50	1.18p
		Parkstone Small Cap Value/Winsbury	— *	–6.8	1.1	108	14	4.50	1.20p
		Parnassus Fund/Parnassus	— *	3.8	0.8	29	10	3.50	1.61
		Pasadena Growth Fund/Pasadena Growth	— *	10.0	none	155	200	5.50	2.20
		Patriot Premium Dividend Fund/closed-end	— *	9.2	10.8	193	0	NA	1.45
C	B	Penn Square Mutual Fund/Penn Square	13.1	7.0	3.6	212	0	4.75	0.94
B	B	Pennsylvania Mutual Fund/Penn Mutual	14.0	5.0	2.3	703	3	none§	0.94
D	D	Petroleum & Resources Corp/closed-end	5.8	1.9	3.8	313	–2	NA	0.62
D	C	Philadelphia Fund/Baxter	8.1	–4.0	2.7	89	–11	none	*1.19*
A	A	Phoenix Growth Fund/Phoenix	18.3	13.5	2.6	977	29	4.75	*1.08*
		Phoenix Multi-Capital Apprec/Phoenix	— *	27.5	1.1	65	480	4.75	*1.50*
B	■B	Phoenix Stock Fund/Phoenix	— *	7.4	1.2	120	–4	4.75	*1.16*
D	■A	Phoenix Total Return/Phoenix	— *	13.1	4.6	32	2	4.75	*1.58*
		Pierpont Capital Appreciation[5]/TBC	— *	–1.9e	none	59	23	none	0.98p
		Pierpont Equity Fund[5]/TBC	— *	14.2e	2.5	55	38	none	0.95p
C	C	Pilgrim MagnaCap Fund[6]/Pilgrim	10.8	5.4	1.5	200	–11	4.75	*1.60*

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Distributor table, page 294. Rules, page 210.

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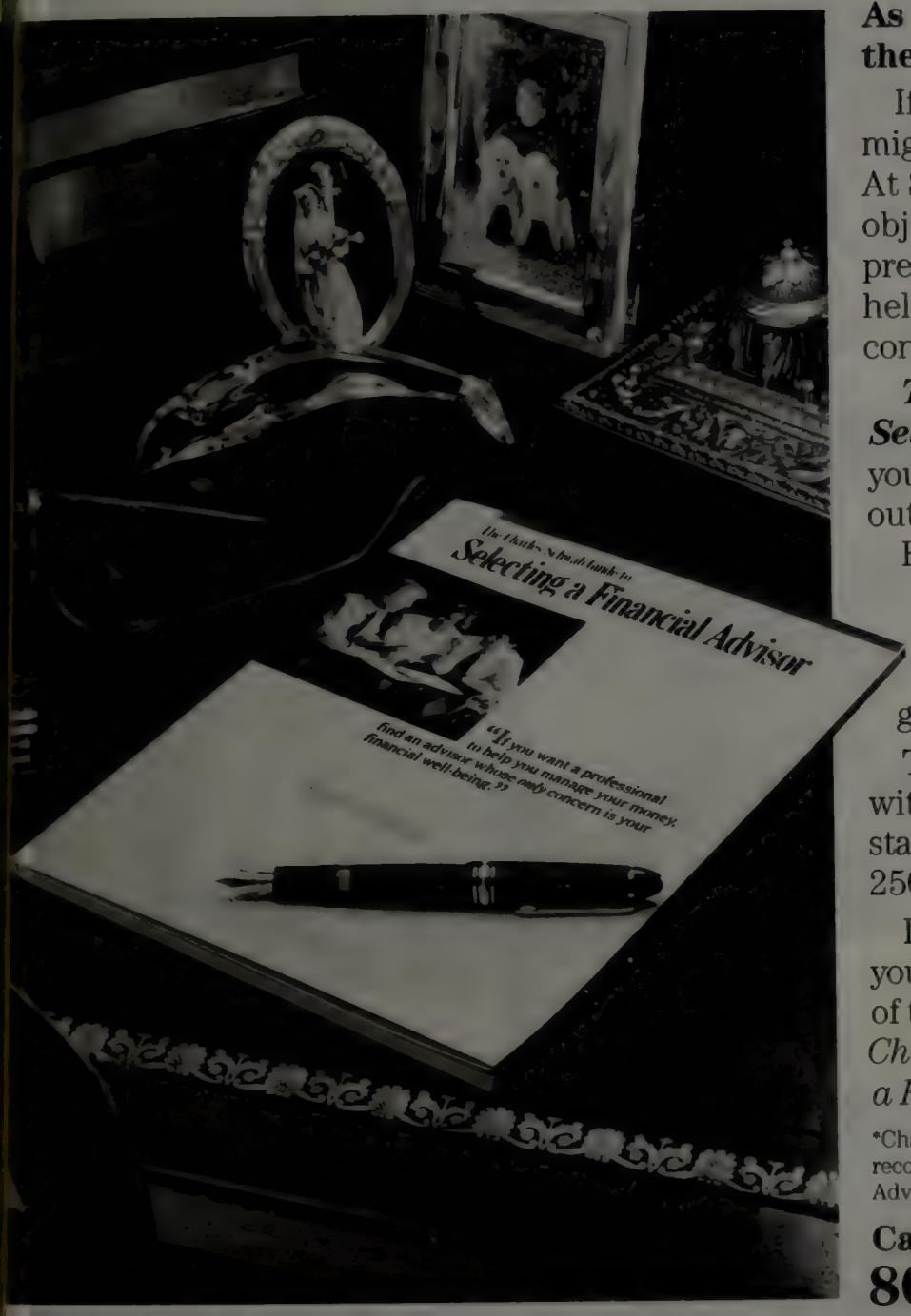

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expense per $10(
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
		Pilgrim Regional Bankshares/closed-end	— *	14.4%	6.4%	$92	3%	NA	$1.29
C	C	Pine Street Fund/Fund/Plan	10.4%	3.8	3.3	47	–7	none	1.21p
C	C	Pioneer Fund/Pioneer	10.4	3.7	3.2	1,553	–1	8.50%	0.78
B	C	Pioneer II/Pioneer	12.8	–1.4	3.2	3,999	–9	8.50	0.84
■ B	■ B	Pioneer Three/Pioneer	— *	6.3	2.6	681	–4	8.50	0.77
		Piper Jaffray Emerging Growth/Piper	— *	14.7	0.3	41	265	4.00	*1.30p*
		Piper Jaffray Value Fund/Piper	— *	13.3	1.3	86	64	4.00	*1.32p*
		Plymouth Growth Opportunities/Fidelity	— *	16.3	0.9	137	144	4.75	*1.94*
		Portico–Equity Index Fund/Sunstone	— *	7.1	2.7	46	28	none	0.50p
		Portico–Income & Growth Fund/Sunstone	— *	8.8	4.0	88	41	none	0.75p
		Portico–Special Growth Fund/Sunstone	— *	21.6	1.4	71	58	none	0.75p
		T Rowe Price Capital Appreciation/Price	— *	10.7	3.4	180	11	none	1.25p
		T Rowe Price Equity Income Fund/Price	— *	9.8	5.4	1,112	11	none	1.09
■ C	■ B	T Rowe Price Growth & Income/Price	— *	7.1	5.0	582	4	none	0.97
C	D	T Rowe Price Growth Stock Fund/Price	9.7	0.9	2.6	1,577	–3	none	0.85
		T Rowe Price New America Growth/Price	— *	6.2	0.9	159	13	none	1.25p
C	D	T Rowe Price New Era Fund/Price	8.6	2.1	3.1	765	–2	none	0.87
B	D	T Rowe Price New Horizons Fund/Price	8.0	3.2	0.7	1,191	13	none	0.90
		T Rowe Price Science & Technology/Price	— *	2.9	0.7	137	58	none	1.25p
		T Rowe Price Small-Cap Value Fund/Price	— *	4.1	2.4	43	32	none	1.25p
		T Rowe Price Spectrum Growth/Price	— *	3.1	1.9	86	NM	none	0.95
		Primary Trend Fund/Primary Trend	— *	10.7	4.9	33	–14	none	1.20
C	A	Princor Capital Accumulation/Princor	14.1	7.9	2.0	144	4	5.00	*1.10*
A	D	Princor Growth Fund/Princor	11.1	12.2	1.6	41	15	5.00	*1.24*
C	B	ProvidentMutual Growth/Provident	12.8	3.8	0.2	121	–22	6.00	*1.64*
D	B	ProvidentMutual Investment Shrs/Provident	12.7	–5.4	0.9	188	–17	6.00	*1.37*
B	■ B	Prudential Equity Fund#/Prudential	— *	14.6	3.0	820	25	4.50	*1.01*
		Prudential Equity Income#/Prudential	— *	9.2	3.3	141	–4	5.25	*1.42*
		Prudential FlexiFund–Conserv#/Prudential	— *	7.8	4.1	162	4	5.25	*1.27*
		Prudential FlexiFund–Strategy[1]#/Prudential	— *	10.6	3.2	216	23	5.25	*1.30*
B	■ D	Prudential Growth Oppor#/Prudential	— *	6.0	0.7	131	–2	5.25	*1.48*
		Prudential Multi-Sector#/Prudential	— *	7.1	3.3	139	–1	5.25	*1.35*
■ C	■ B	Prudential Option Growth#/Prudential	— *	2.5	2.2	51	–17	5.25	*1.96*
■ B	■ C	Prudential Research Fund#/Prudential	— *	1.4	1.7	266	–18	5.25	*1.46*
D	■ A	Prudential Utility Fund#/Prudential	— *	4.5	5.2	2,513	1	5.25	*0.97*
D	F	Putnam Energy-Resources Trust/Putnam	1.6	1.1	3.1	120	–5	5.75	*1.60*
C	B	Putnam Fund for Growth & Inc/Putnam	13.6	8.5	5.1	2,395	12	5.75	*1.07*

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Distributor table, page 294. Rules, page 210.

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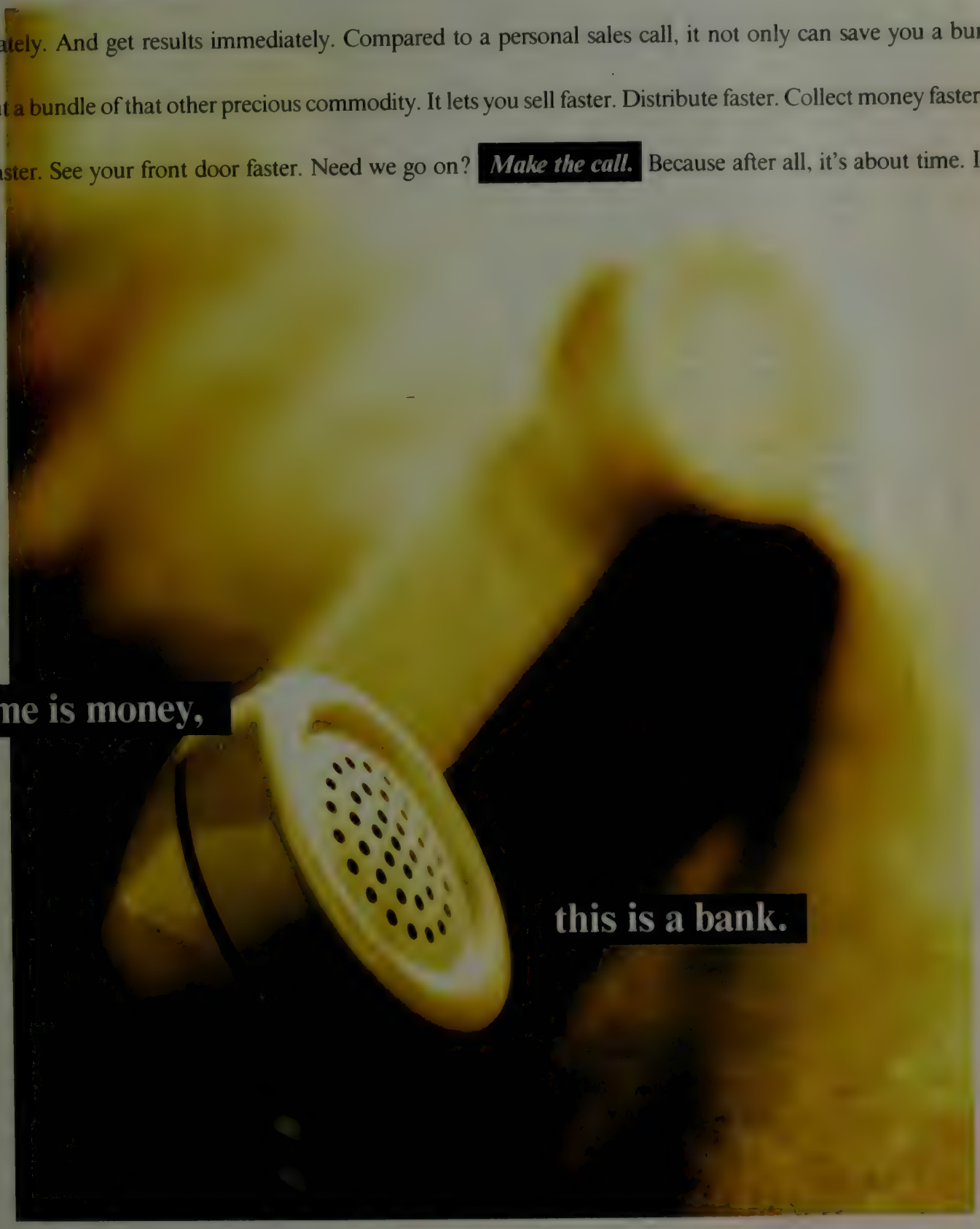

GTE

THE POWER IS ON

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
A	■ D	Putnam Health Sciences Trust/Putnam	— *	22.3%	1.2%	$567	63%	5.75%	$1.29
		Putnam Information Sciences/Putnam	— *	–5.3	0.7	87	–16	5.75	1.79
B	D	Putnam Investors Fund/Putnam	11.5%	6.7	1.9	709	–1	5.75	0.98
		Putnam Option Income Trust II/Putnam	— *	9.3	3.2	722	–22	6.75	1.11
■ A	■ C	Putnam OTC Emerging Growth/Putnam	— *	–3.8	none	220	7	5.75	1.55
D	B	Putnam Strategic Income/Putnam	10.3	7.5	3.5	466	–40	5.75	1.15
A	B	Putnam Vista Fund/Putnam	14.9	7.7	1.5	267	2	5.75	1.05
A+	D	Putnam Voyager Fund/Putnam	14.8	11.8	0.8	918	14	5.75	1.21
C	A+	Quest for Value Fund/Quest	17.9	6.6	1.6	66	–4	5.50	1.93
		Quest for Value Dual–Capital[1]	— *	11.7	4.9	557	3	none	0.82
		Quest for Value Dual–Income							
		Reich & Tang Equity Fund/Reich & Tang	— *	6.4	2.6	79	–28	none	1.12
		Rightime Blue Chip Fund/Lincoln Inv	— *	16.4	1.9	179	45	4.75	2.30
		Rightime Fund/Lincoln Inv	— *	15.5	1.7	161	8	none	2.55
		Rightime Growth Fund/Lincoln Inv	— *	5.5	2.1	42	–9	4.75	1.92
		Robertson Stephens Emerging Growth[2]/Robertson	— *	8.8	none	64	233	none	1.50
		Rodney Square Multi-Mngr–Growth/Rodney Sq	— *	3.6	0.9	48	10	5.75	1.50p
		Royce–Equity Income/Quest Dist	— *	3.1	4.2	40	76	4.50b	0.96p
■ C	■ B	Royce Fund–Value/Quest Dist	— *	2.7	1.8	169	–12	4.50b	1.89p
		Royce Value Trust/closed-end	— *	3.8	1.6	151	8	NA	0.90
		RPF of America–Equity Fund/Venture	— *	11.6	1.2	31	4	5.00b	2.62
		Rushmore–Nova/Rushmore	— *	0.5	1.5	95	49	none	1.22
B	C	Safeco Equity Fund/Safeco	11.8	1.9	1.8	67	4	none	0.97
B	C	Safeco Growth Fund/Safeco	11.2	5.4	0.4	121	38	none	0.95
D	A	Safeco Income Fund/Safeco	13.5	4.2	5.5	180	–13	none	0.95
		St Clair Equity–Capital Growth/Fairfield	— *	9.1	1.0	57	184	none	1.38p
		Salem Funds–Growth[3]/Federated	— *	8.5	3.2	273	160	4.00	1.02
B	B	Salomon Brothers Capital/Salomon	13.3	–3.7	1.4	80	9	5.00	1.44
C	B	Salomon Brothers Fund/closed-end	12.1	5.2	3.3	1,017	0	NA	0.46
C	B	Salomon Brothers Investors/Salomon	12.3	2.6	3.3	353	–7	5.00	0.68
C	B	Salomon Brothers Opportunity/Salomon	14.3	4.4	2.6	99	–9	none	1.34
		SBSF–Growth Fund/SBSF	— *	2.7	3.8	101	0	none	1.15
■ D	■ B	Sci/Tech Holdings/ML Funds	— *	–0.7	5.6	133	–15	6.50	1.77
A	C	Scudder Capital Growth/Scudder	13.2	–0.4	2.2	934	–6	none	1.07
C	D	Scudder Development Fund/Scudder	10.3	10.3	none	479	33	none	1.36
C	C	Scudder Growth & Income Fund/Scudder	10.8	6.9	4.6	569	13	none	1.04
■ C	■ C	Security Action Fund/Security Dist	— *	–4.0	0.6	267	8	**	0.80

■ Fund rated for two periods only; maximum allowable grade A. * Fund not in operation for full period. † Closed to new investors. § Distributor may impose redemption fee, which proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* ** Available only through monthly contractual plan. b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Dual Fund. Performance, asset and expense data on capital and income shares treated as a unit. [2]Formerly RCS Emerging Growth Fund. [3]Fund has institutional class of shares with no load or 12b-1 plan.

Distributor table, page 294. Rules, page 210.

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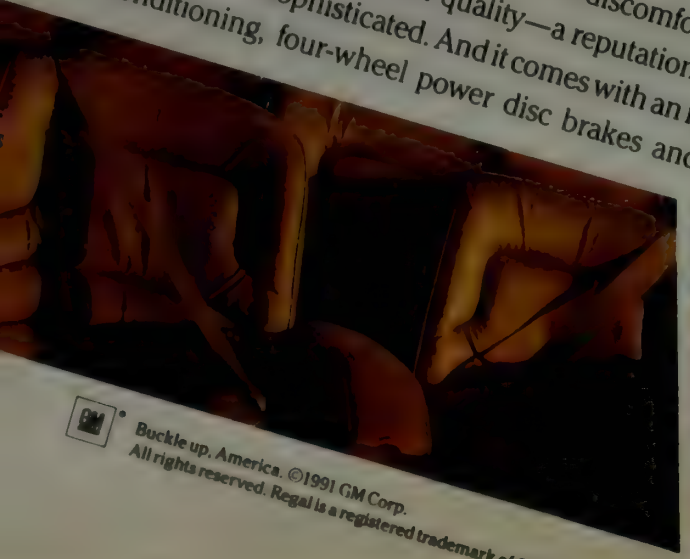

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
A	D	Security Equity Fund/Security Dist	11.3%	8.2%	2.7%	$270	0	5.75%	$1.08p
D	C	Security Investment Fund/Security Dist	7.8	10.6	7.4	76	–1%	5.75	1.30p
D	F	Security Ultra Fund/Security Dist	4.0	–15.0	none	60	4	5.75	2.08p
C	A	Selected American Shares/Kemper Secs	15.5	16.7	2.7	557	35	none	*1.10*
B	D	Selected Special Shares/Kemper Secs	10.4	2.7	1.9	59	–1	none	*1.26*
A+	D	Seligman Capital Fund/Seligman	13.1	10.7	none	134	1	4.75	0.92
B	B	Seligman Common Stock Fund/Seligman	13.5	4.1	3.3	459	–8	4.75	0.66
		Seligman Communications & Info/Seligman	— *	–6.8	none	40	–13	4.75	1.67
B	D	Seligman Growth Fund/Seligman	10.2	6.2	1.3	531	–5	4.75	0.71
C	A	Sentinel Common Stock Fund/Equity	15.7	9.2	3.8	605	1	8.50	0.75
A	D	Sentinel Growth Fund/Equity	12.8	1.8	1.2	56	–1	5.25	1.15
B	D	Sentry Fund/Sentry	11.1	12.3	2.5	57	11	none	0.69
D	A+	Sequoia Fund/Ruane	18.1	7.4	2.9	1,029	5	†	1.00p
		Shearson Aggressive Growth/Shearson	— *	–2.1	none	122	14	5.00	1.17
B	B	Shearson Appreciation/Shearson	15.0	6.6	2.7	1,410	26	5.00	0.84
		Shearson Equity–Growth & Oppor/Shearson	— *	4.2	2.4	138	–24	5.00b	*1.01p*
		Shearson Equity–Sector Analysis/Shearson	— *	13.0	3.1	177	–17	5.00b	*2.15*
		Shearson Equity–Strategic Inv/Shearson	— *	8.2	3.0	206	–5	5.00b	*2.05*
D	■B	Shearson Fundamental Value/Shearson	— *	0.1	3.8	56	–32	5.00	1.35
		Shearson Income–Option Inc/Shearson	— *	12.3	8.7	456	–13	5.00b	*1.74*
		Shearson Invest–Directions Val/Shearson	— *	1.9	1.3	248	–19	5.00b	*1.83*
		Shearson Invest–European/Shearson	— *	–13.0	1.3	28	7	5.00b	*2.98*
D	■B	Shearson Invest–Growth/Shearson	— *	0.4	4.4	702	–18	5.00b	*1.85*
■D	■D	Shearson Invest–Special Equities/Shearson	— *	–16.4	3.1	73	–39	5.00b	*2.35*
		Shearson Multiple Oppors LP/Shearson	— *	2.5	1.8	142	–29	3.00b	*3.02p*
		Shearson 1990s Fund/Shearson	— *	–2.1	none	46	33	5.00	*1.83*
		Shearson Small Capitalization/Shearson	— *	–13.9	none	34	2	5.00	1.53
		Shearson Telecommun–Growth/Shearson	— *	–4.1	1.8	32	–16	5.00	1.24
■A	■C	Sit New Beginning Growth Fund/Sit	— *	14.1	0.8	126	71	none	1.10
		Skyline Fund–Special Equities/Mesirow	— *	7.2	0.8	34	33	3.85	*1.59*
C	C	Smith Barney Equity Fund/Smith Barney	11.2	3.5	2.8	80	–4	4.50	0.69
D	A	Smith Barney–Income & Grow/Smith Barney	14.9	4.5	6.0	555	–5	4.50	0.59
C	A+	SoGen International Fund/SoGen	16.1	3.5	4.0	262	34	3.75	*1.30*
		Sound Shore Fund/Sound	— *	3.9	3.6	32	–16	none	1.33
D	A+	Source Capital/closed-end	15.6	5.1	3.8	304	–2	NA	0.97
		SAM Small Cap Fund/Southeastern	— *	–11.3	2.6	57	–13	none	1.43
		SAM Value Trust/Southeastern	— *	10.2	0.6	161	9	none	1.32

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Distributor table, page 294. Rules, page 210.

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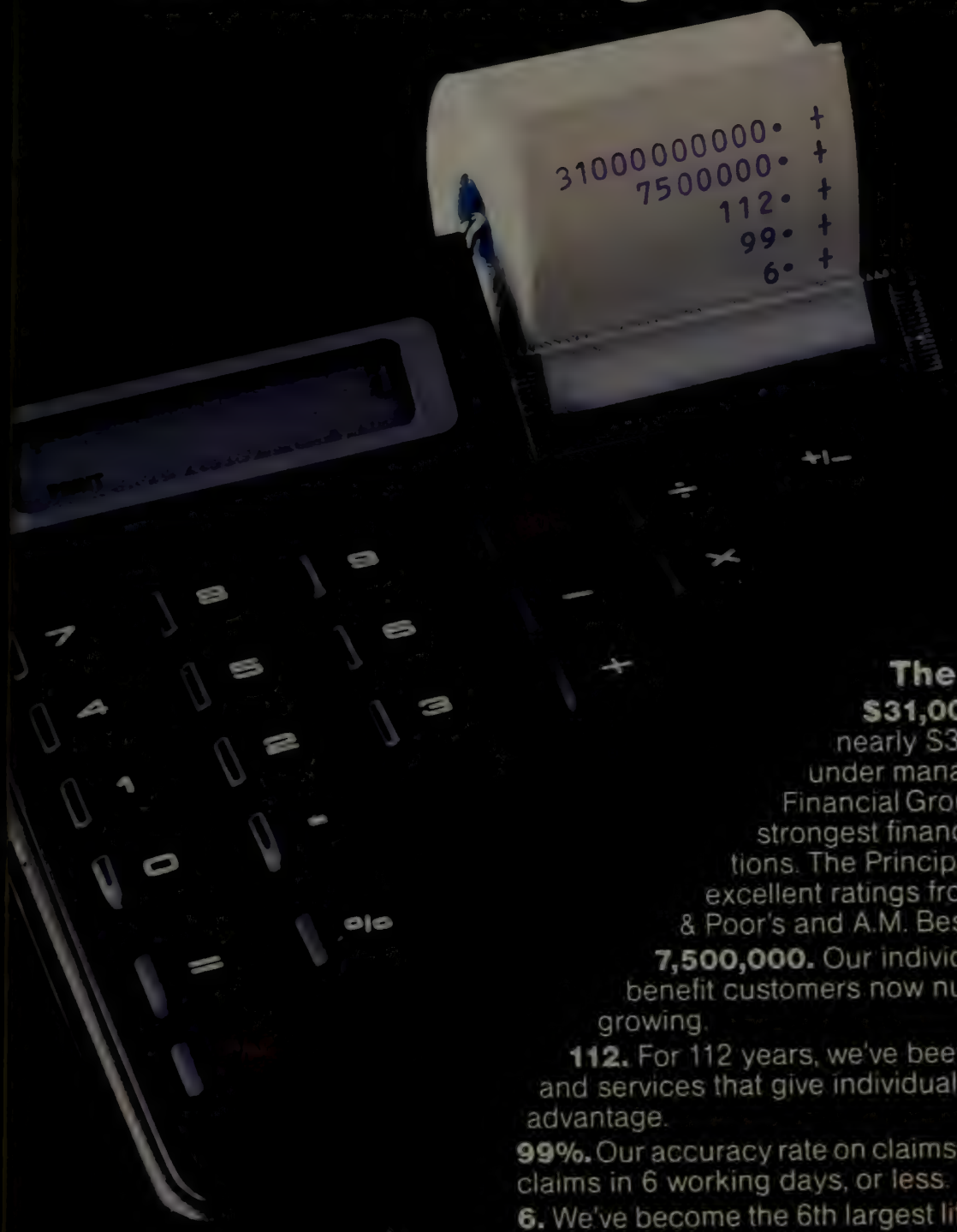

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expense per $1
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
		Southeastern Growth Fund/Wheat First	— *	9.5%	0.5%	$93	–12%	5.00b%	*$2.25*
D	A	Sovereign Investors/Sovereign	15.1%	12.1	4.3	106	32	5.00	*1.14*
		Spartan Market Index/Fidelity	— *	7.3	3.1	130	348	none§	0.28
B	D	State Bond Common Stock Fund/State Bond	10.8	7.3	1.9	40	3	4.75	*1.19*
C	B	State Bond Diversified Fund/State Bond	12.8	9.8	3.9	26	8	4.75	0.96
B	C	State Street Investment Trust/MetLife	12.2	3.9	2.8	584	0	4.50	0.50
B	F	SteinRoe Capital Opportunities/Stein Roe	4.8	–9.3	0.8	111	–31	none	1.29
A	C	SteinRoe Special Fund/Stein Roe	14.9	2.8	1.9	544	21	none	1.03
A	D	SteinRoe Stock Fund/Stein Roe	9.6	4.5	2.0	266	10	none	0.72
D	A+	Stratton Monthly Dividend Shares/Stratton	12.9	12.2	8.9	33	4	none	1.27
		Strong Discovery Fund/Strong	— *	13.8	1.1	91	27	2.00	1.70
		Strong Opportunity Fund/Strong	— *	1.1	2.1	146	–18	2.00	1.70
		SunAmerica Capital Apprec/SunAmerica	— *	–12.2	0.5	116	–36	5.00b	*2.51*
		SunAmerica Equity–Aggress Grow/SunAmerica	— *	1.4	none	32	–17	5.75	*2.05*
		SunAmerica Equity–Growth/SunAmerica	— *	–0.8	2.6	30	–26	5.75	*1.84*
		Thomson Fund–Growth#/Thomson	— *	6.3	1.0	489	34	5.50	*1.16*
		Thomson Fund–Opportunity#/Thomson	— *	9.2	none	48	8	5.50	*1.33*
		Tower–Capital Appreciation/Federated	— *	3.1	2.7	78	13	4.50	*0.70p*
C	C	Transamerica Capital Apprec[1]/Transamerica	9.7	–1.9	0.0	77	9	4.75	*1.54*
		Transamerica Special Emerg Grow/Transamerica	— *	9.7	none	26	50	6.00b	*3.11*
C	■C	Transamerica Sunbelt Growth/Transamerica	— *	–1.9	1.4	25	–18	4.75	*2.05*
B	C	Tri-Continental Corp/closed-end	12.7	3.5	3.1	1,679	–1	NA	0.56
		20th Century Giftrust Investors/20th Century	— *	–4.4	none	41	21	none	1.00
A+	D	20th Century Growth Investors/20th Century	12.3	4.0	0.6	2,545	24	none	1.00
		20th Century Heritage Investors/20th Century	— *	–1.9	1.4	250	13	none	1.00
A	C	20th Century Select Investors/20th Century	15.0	1.3	1.8	3,764	14	none	1.00
A+	■F	20th Century Ultra Investors/20th Century	— *	30.1	none	1,147	189	none	1.00
		20th Century Vista Investors/20th Century	— *	–3.7	none	541	10	none	1.00
■C	■B	UMB Stock Fund/Jones & Babson	— *	8.6	3.8	53	11	none	NA
C	B	United Accumulative Fund/Waddell	13.8	1.7	3.4	850	–3	8.50	0.63
A	A	United Income Fund/Waddell	17.7	4.7	3.0	1,894	9	8.50	0.67
■C	■C	United New Concepts Fund/Waddell	— *	23.7	1.3	86	31	8.50	1.36
C	C	United Science & Energy Fund/Waddell	11.4	5.7	1.6	281	7	8.50	0.87
		US Boston Inv–Growth & Income[2]/US Boston	— *	7.4	1.5	40	8	1.00b	1.80
B	C	US Trend Fund/Capstone	11.1	5.8	2.7	91	0	4.75	0.98
B	B	United Vanguard Fund/Waddell	14.1	0.2	2.4	804	–1	8.50	0.99
B	■D	USAA Mutual–Aggressive Growth/USAA	— *	5.8	0.6	178	13	none	0.91

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Distributor table, page 294. Rules, page 210.

A picture so real it could fool the Audubon Society.

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Ultravision is an unprecedented combination of advanced technologies that create a picture so ultra clear, ultra bright and ultra sharp it looks like real life.

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.2%	7.4%	3.3%				
		Forbes stock fund composite	12.2%	6.0%	2.6%				$1.29
C	D	USAA Mutual–Growth Fund/USAA	8.7%	6.2%	3.0%	$290	16%	none	$1.16
		USAA Mutual–Income Stock/USAA	— ■	11.5	5.4	133	54	none	0.90
		UST Master Funds–Equity/UST Secs	— ■	1.3	2.0	36	16	4.50%	1.23
		Value Line Convertible Fund/Value Line	— *	3.1	7.1	37	–20	none	1.19
C	C	Value Line Fund/Value Line	10.8	8.5	1.6	240	13	none	0.71
D	A	Value Line Income Fund/Value Line	12.5	11.3	5.4	149	3	none	0.77
B	B	Value Line Leveraged Growth Inv/Value Line	14.0	11.0	1.4	281	8	none	0.96
D	D	Value Line Special Situations/Value Line	4.9	4.1	1.1	114	–4	none	1.11
		Van Kampen Merritt Gr & Inc/Van Kampen	— *	10.6	2.7	25	–2	4.90	*1.84*
		Vanguard Equity Income Fund/Vanguard	— *	1.4	6.6	474	11	none	0.53
D	D	Vanguard Explorer Fund/Vanguard	7.6	6.7	1.0	326	12	none	0.64
		Vanguard Gemini II Capital[1]	— *	5.5	6.5	272	–3	none	0.55
		Vanguard Gemini II Income							
B	C	Vanguard Index–500 Portfolio/Vanguard	13.8	7.2	3.3	3,044	29	none[2]	0.19
		Vanguard Index–Extended Mkt/Vanguard	— *	4.6	2.3	255	38	none[2]	0.21
A	C	Vanguard/Morgan Growth/Vanguard	13.1	7.4	2.8	895	18	none	0.55
		Vanguard Primecap Fund/Vanguard	— *	7.0	0.9	391	26	none	0.75
		Vanguard Quantitative Portfolios/Vanguard	— *	7.5	3.1	272	34	none	0.45
C	D	Vanguard Small Cap Stock/Vanguard	7.0	2.2	1.6	97	107	none[2]	0.23
		Vanguard Special–Energy/Vanguard	— *	–1.2	3.1	135	32	none§	0.35
		Vanguard Special–Health Care/Vanguard	— *	24.1	1.7	349	160	none§	0.36
C	B	Vanguard Trustees Comm–US/Vanguard	12.8	2.0	4.0	110	–9	none	0.52
B	A	Vanguard Windsor Fund/Vanguard	16.9	2.4	6.2	7,709	–3	†	0.33
		Vanguard Windsor II/Vanguard	— *	7.6	5.1	2,923	16	none	0.51
		Vista Growth & Income/Vista	— *	21.3	2.0	30	30	4.50	*1.09p*
B	A	Washington Mutual Investors/American Funds	16.9	8.5	4.2	6,792	27	5.75	*0.77*
		Weitz Series Fund–Value/Weitz Secs	— *	8.4	2.4	29	19	none	1.49
		Westcore–Basic Value Fund/Westcore	— *	5.7	3.4	99	–27	4.50	0.90p
		Westcore–MIDCO Growth/Westcore	— *	22.1	0.5	127	52	4.50	0.78p
		Westcore–Modern Value Equity/Westcore	— *	8.6	2.4	26	3	4.50	0.84p
		Westwood Fund/Furman Selz	— *	2.2	4.5	50	–10	4.00	1.26
D	D	Winthrop Focus Funds–Growth[3]/National Finl	7.4	–0.2	1.9	48	–8	4.00b	*1.40*
C	C	WPG Growth & Income[4]/Weiss	11.5	2.3	1.8	34	–7	none	1.47
A	C	WPG Tudor Fund/Weiss	15.1	1.9	1.2	212	5	none	1.10
		Zweig Fund/closed-end	— ■	10.4	5.7	422	4	NA	1.27
		Zweig Series–Priority Selec[5]/Zweig	— ■	10.4	0.5	45	–6	5.50	1.77
		Zweig Total Return/closed-end	— *	8.9	6.2	594	1	NA	1.09

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Distributor table, page 294. Rules, page 210.

How First Chicago stays steady when interest rates don't.

In theory, the banking business is pretty straightforward. Buy money at one price and sell it at another (hopefully higher) price. But in reality, buying and selling billions of dollars amidst interest rate gyrations can make it hard to stay on track.

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Closed-end stock funds

WHY DO presumably rational people buy closed-end funds when they first come out? This is one of the great mysteries on Wall Street.

Closed-ends funds are issued at a premium to net asset value. That is, the buyer pays $1 for only 93 cents or so of assets. So far, the investor isn't any worse off than he or she would be investing in an open-end fund carrying a 7% load. But the economics get worse. If the investor wants out he has to sell his shares in the open market, like shares of stock. For this, he will incur a second brokerage commission. Moreover, if demand for this fund is weak in the secondary market, the share price will sink to a discount to the fund's net asset value.

The next question is why more people don't buy closed-ends in the secondary market when their prices sink to attractive discounts from net asset value. Here the answer is a little less mysterious. A liquidation of the fund, which would allow the investor to exit at full net asset value, may be years or decades in coming. In the meantime, the operator of the fund is raking off fees every year.

We capture the tradeoff between discounts and operating costs in the table. The "relative discount" is the number of years it would take for the operating costs to eat away the entire benefit of being able to buy the fund at a discount.

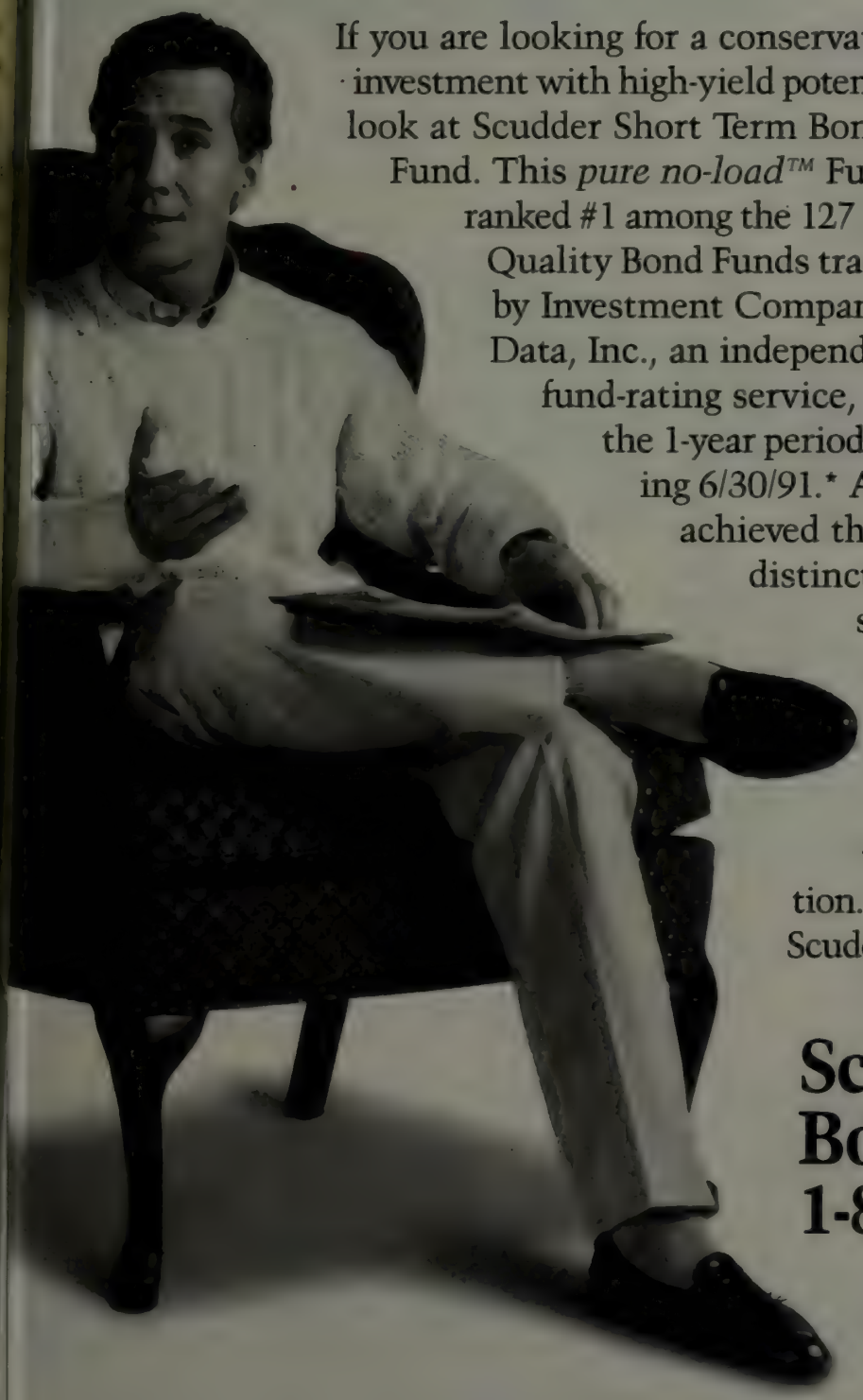
How can investors (latecomers, that is; not the new-issue victims) profit from the situation? Peter Thayer, president of Milford, Ohio-based Gateway Investment Advisers, looks for funds trading at substantial discounts to their net asset value, then works to convince the fund's manager to raise the fund's stock price. If the fund converts to open-end status, as Financial News Composite Fund and Schafer Value Trust did last year, both at the urging of Thayer, shareholders realize the full net asset value behind their shares. Occasionally old closed-ends simply sell off their portfolios and mail out checks to shareholders, as the 62-year-old Niagara Share Corp. intends to do later this year. —ERIC HARDY

Fund	3-year return annualized	Recent price	Discount	Annual expenses per $100	Relative discount[1]
Salomon Brothers Fund	10.9%	13¼	–14.6%	$0.46	34.2
Baker, Fentress	4.5	17¾	–15.8	0.63	25.3
Hampton Utilities Trust	11.0	10⅞	–16.2	0.81	21.7
New Germany Fund	—*	9⅞	–17.2	0.90	19.1
American Capital Convertible	4.1	17½	–15.0	0.86	18.9
Petroleum & Resources	11.5	27⅜	–10.2	0.62	17.3
Future Germany Fund	—*	11¼	–16.4	1.12	15.9
Quest for Value Dual[2]	24.5	28	–11.7	0.82	15.1
General American Investment	21.6	24¼	–13.8	1.07	13.8
Emerging Germany Fund	—*	7⅜	–17.3	1.37	13.8
Convertible Holdings[2]	6.9	17½	–11.1	0.85	13.6
Castle Convertible	7.9	19¼	–14.3	1.15	13.4
Growth Fund of Spain	—*	9⅝	–16.8	1.38	13.2
Irish Investment Fund	—*	7¾	–19.8	1.70	12.8
Austria Fund	—*	9⅛	–17.1	1.75	10.6
Bancroft Convertible	2.8	17½	–14.8	1.50	10.6
Engex	–10.5	6¾	–21.5	2.34	10.2
Chile Fund	—*	27¼	–16.4	2.04	8.7
Scudder New Europe	—*	8½	–15.3	1.89	8.7
Japan OTC Equity Fund	—*	10⅝	–11.7	1.43	8.6
Ellsworth Convertible Growth & Inc	6.2	7⅜	–12.0	1.50	8.5
Worldwide Value	0.0	13⅝	–18.3	2.40	8.3
Counsellors Tandem Secs	21.5	12	–16.0	2.30	7.4
Mexico Fund	53.8	22⅜	–10.0	1.45	7.2
Italy Fund	13.1	10⅛	–10.9	1.70	6.8
GT Greater Europe Fund	—*	10	–11.5	1.80	6.4
Portugal Fund	—*	9⅝	–12.1	2.04	6.3
Clemente Global Growth	8.4	9	–17.7	3.08	6.2
United Kingdom Fund	—*	9⅝	–12.7	2.19	6.1
First Iberian	3.6	7¾	–12.5	2.18	6.1

Prices and discounts as of Aug 2. *Fund not in operation for full period. [1]Number of years after which expenses, continuing at current rates, would dissipate the benefit of buying the fund at its current discount and having it liquidated at full net asset value. [2]Dual fund, with capital and income shares treated as a unit. Due to be liquidated in 1997.

#1 High Quality Bond Fund!

"Here's a Fund that outperformed its competition, without a lot of risk."



If you are looking for a conservative investment with high-yield potential, look at Scudder Short Term Bond Fund. This *pure no-load*™ Fund ranked #1 among the 127 High Quality Bond Funds tracked by Investment Company Data, Inc., an independent fund-rating service, for the 1-year period ending 6/30/91.* And it achieved this distinction without compromising its steadfast commitment to high price stability and quality.

Performance Summary**	
30-day yield (July 24, 1991)	**9.14%**
1-year return	**12.58%**
5-year average-annual return	**8.77%**
Life-of-Fund average-annual return (period ending 6/30/91)	**11.36%**

Performance is historical. Investment return and principal value fluctuate. Upon redemption, shares may be worth less than their original cost.

Join the tens of thousands of investors who have discovered that you can still invest for high yields today—without a lot of price fluctuation. Call for your free information kit on Scudder Short Term Bond Fund today.

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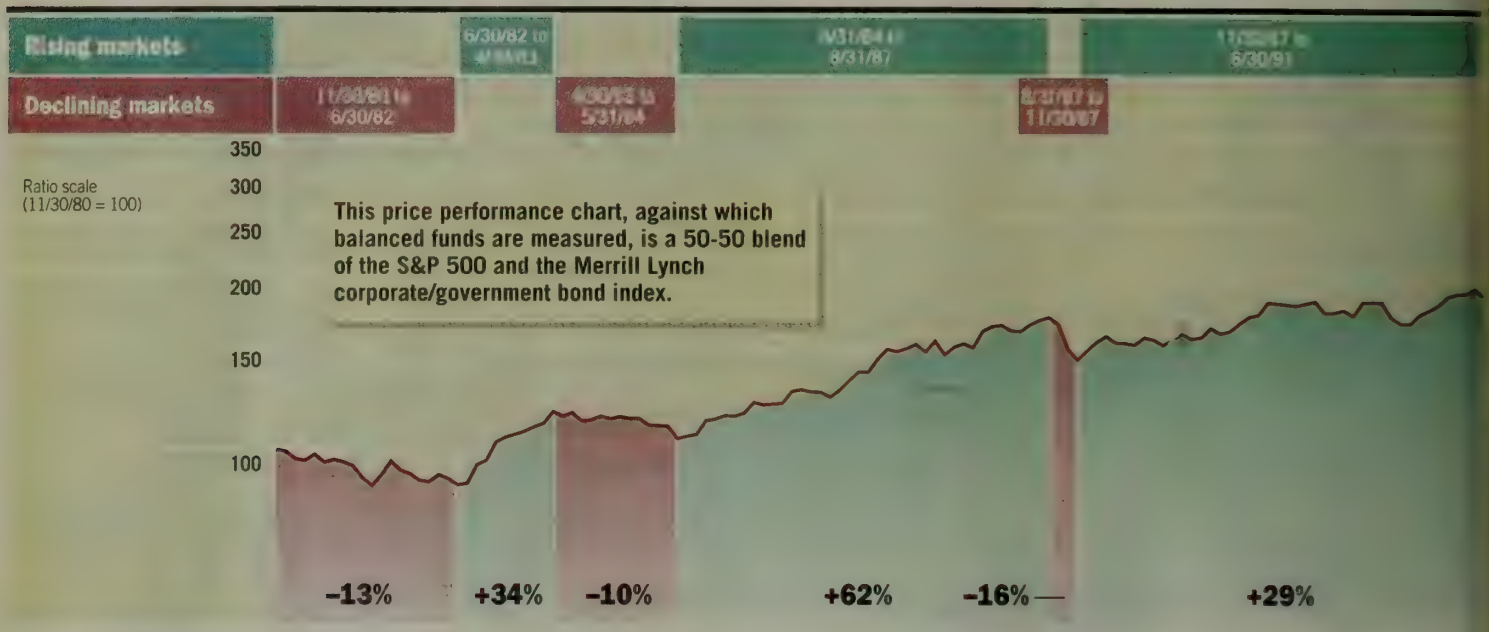
**Ranking based on total return. **Yield without adviser expense cap would have been 8.60%, and total returns would have been lower. Expense cap will continue to December 31, 1991, until which time adviser guarantees expenses will not exceed 0.50%. From 4/24/84, Fund's inception, to 7/89, Fund pursued different objectives as Scudder Target Fund, 1994 Portfolio.* Contact Scudder Investor Services, Inc., Distributor, for a prospectus which contains more complete information on management fees and other expenses. Read the prospectus carefully before you invest or send money.

Balanced funds

Balanced funds mix stocks with bonds. We include in the balanced category funds that buy convertible bonds or that call themselves "asset allocators." Balanced funds are graded separately from stock funds, and the benchmark used for their performance is a hybrid, rebalanced monthly, of the S&P 500 index and the Merrill Lynch corporate/government bond index. Balanced funds are generally more conservative than stock funds: They hold up better in a crash, but in a strong market they do not perform as well as stock funds. To appear on this list a balanced fund must have at least $25 million of assets and a full year of performance history; to be graded, a fund must have been around for at least two full market cycles—that is, since April 1983.



Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Blended stock and bond market index	13.8%	9.2%	5.9%				
		Forbes balanced fund composite	12.4%	6.8%	5.7%				$1.26
		Advantage Income Fund/Advest	—*	6.7%	6.0%	$44	–16%	4.00b%	*$2.10*
B	C	Alliance Balanced Shares#/Alliance	13.6%	8.7	3.3	150	–5	5.50	*1.42*
B	B	American Balanced Fund/American Funds	14.2	9.1	5.6	477	54	5.75	*0.84*
C	B	American Capital Convert Secs/closed-end	12.8	–2.4	7.0	65	–10	NA	0.86
B	B	American Capital Equity Income/American Cap	14.2	2.4	4.9	91	–4	5.75	*0.89*
B	D	American Capital Harbor Fund/American Cap	11.5	4.0	6.4	347	–8	5.75	*0.89*
		AMEV Advantage–Asset Alloc/AMEV	—*	6.3	2.0	25	4	4.50	*1.78*
A	D	Axe-Houghton Fund B/USF&G	12.3	14.0	7.2	166	3	5.75	*1.00*
D	C	Bancroft Convertible Fund/closed-end	8.7	5.3	7.2	53	–2	NA	1.50
F	F	Bull & Bear Gold Investors/Bull & Bear	–1.3	–6.2	0.3	33	–16	none	*2.79*

■ Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 294. Rules, page 210.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Blended stock and bond market index	13.8%	9.2%	5.9%				
		Forbes balanced fund composite	12.4%	6.8%	5.7%				$1.26
■C	■D	Calvert Social Inv–Managed Grow/Calvert	—*	7.0%	3.6%	$305	22%	4.75%	*$1.33*
D	A	Castle Convertible Fund/closed-end	11.5%	11.0	7.5	49	3	NA	1.15
A+	D	CGM Mutual Fund/TNE	15.8	12.3	3.7	315	–2	none	0.97
B	D	Colonial Fund/Colonial	13.1	6.7	4.0	342	2	5.75	*1.04*
D	D	Colonial Strategic Inc–Diversified/Colonial	8.4	5.6	10.5	416	–4	4.75	1.12
D	C	Commonwealth Inv–Balanced/Trusteed	11.0	6.3	5.2	44	–5	7.50	1.00
C	B	Composite Bond & Stock Fund/Murphey	11.8	10.9	4.9	65	–9	4.00	*1.22*
		Connecticut Mutual–Total Ret/Phelps	—*	8.1	4.5	73	6	6.25	1.23
		Convertible Holdings–Capital[1] Convertible Holdings–Income	—*	6.7	7.0	263	–1	none	0.86
		Dean Witter Convertible Secs/Dean Witter	—*	–1.8	5.2	316	–43	5.00b	*1.93*
		Dean Witter Managed Assets/Dean Witter	—*	9.4	3.9	214	–22	5.00b	*1.78*
		Dean Witter Strategist/Dean Witter	—*	6.5	2.1	221	23	5.00b	*1.53*
		Delaware Group Delaware Fund/Delaware	—*	4.2	5.0	413	4	6.75	0.73
A	C	Dodge & Cox Balanced Fund/Dodge & Cox	13.7	8.3	4.8	127	104	none	0.70
D	C	Dreyfus Convertible Securities/Dreyfus	10.9	–10.7	5.5	210	–24	none	1.07
		Duff & Phelps Utilities Income[2]/closed-end	—*	11.8	9.1	1,186	4	NA	1.27
		Eaton Vance High Income Trust/Eaton Vance	—*	3.4	16.4	191	–17	6.00b	*2.65*
D	A	Eaton Vance Inc Fund of Boston/Eaton Vance	11.4	8.6	15.5	66	–11	4.75	*1.05*
C	C	Eaton Vance Investors Fund/Eaton Vance	12.2	6.0	5.5	198	–3	4.75	*0.89*
		Ellsworth Convert Growth & Inc/closed-end	—*	5.7	7.2	50	–2	NA	1.50
D	A	Federated Stock & Bond Fund/Federated	13.1	6.1	5.3	87	–2	none	1.01p
		Fidelity Asset Manager/Fidelity	—*	16.6	5.3	535	41	none	1.16
		Fidelity Balanced Fund/Fidelity	—*	13.6	5.7	418	87	none	0.98
		Fidelity Convertible Securities/Fidelity	—*	11.7	5.0	86	22	none	1.31
B	B	Fidelity Puritan Fund/Fidelity	15.5	7.3	6.0	4,790	–2	2.00	0.66
		First Investors Total Return/First Inv	—*	6.1	4.0	50	250	6.90	*1.41p*
D	A	Franklin Income Fund/Franklin	12.6	11.5	11.2	1,520	6	4.00	0.55
		FundTrust–Growth & Income/Signature	—*	4.1	5.3	28	–9	1.50	*1.91p*
		Gabelli Convertible Secs/Gabelli	—*	10.5	4.3	98	31	4.50	1.52
B	B	IDS Mutual/IDS	13.5	9.3	6.0	1,786	7	5.00	0.70
C	A+	Income Fund of America/American Funds	15.6	8.9	7.1	2,660	27	5.75	*0.67*
		Kemper Invest–Total Return/Kemper	—*	9.4	3.9	579	1	3.00b	*2.21*
A+	F	Kemper Total Return Fund/Kemper	11.8	11.3	5.4	903	–1	5.75	0.87
C	C	Keystone Custodian K-1/Keystone	12.0	7.4	5.9	902	9	4.00b	*1.92*
		Lincoln National Convert Secs/closed-end	—*	12.9	6.4	101	5	NA	0.97
		Lord Abbett Equity-1990/Lord Abbett	—*	10.7	2.5	67	–18	†	*1.80p*
		Mackenzie No Amer Total Return/Mackenzie	—*	0.0	5.5	56	–35	5.75	*1.96*
		MainStay–Total Return Fund/NYLife	—*	9.0	2.1	93	100	5.00b	*2.33*
A	C	Mass Financial Total Return/Mass Finl	14.5	6.5	5.8	832	10	4.75	*0.85*
		Merrill Lynch Bal Inv & Retire[3]#/ML Funds	—*	5.0	6.3	1,020	–29	6.50	0.91

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Distributor table, page 294. Rules, page 210.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 11/80 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Blended stock and bond market index	13.8%	9.2%	5.9%				
		Forbes balanced fund composite	12.4%	6.8%	5.7%				$1.26
■B	■C	Merrill Lynch Phoenix Fund#/ML Funds	—*	4.2%	6.0%	$206	–20%	6.50%	$1.32
		Merriman Timed Asset Alloc/Merriman	—*	6.1	3.4	28	27	none	1.52p
		MetLife-State Street Mgd Assets/MetLife	—*	–0.2	6.0	63	–2	4.50	*1.25p*
F	A	Mutual of Omaha Income/Mutual of Omaha	11.8%	8.1	7.2	176	2	4.75	*0.94*
C	B	National Total Income Fund/National Secs	15.0	6.8	5.3	261	17	5.75	*1.43*
B	C	National Total Return Fund/National Secs	13.1	6.0	3.8	252	–5	5.75	*1.38*
		NA Security–Mod Asset Alloc/Wood Logan	—*	2.4	3.7	33	–27	4.75	*2.40*
		Oppenheimer Asset Allocation[1]/Oppenheimer	—*	5.4	5.1	140	66	5.75	*1.36*
		Overland Express Asset Allocation/Overland	—*	8.7	5.6	34	18	4.50	*1.56*
		PaineWebber Asset Allocation[2]/PaineWebber	—*	7.9	5.6	368	–28	5.00b	*1.95*
		Patriot Premium Dividend Fund II/closed-end	—*	8.8	10.2	253	–8	NA	1.38
■D	■C	Permanent Port–Permanent/Permanent	—*	2.1	3.1	76	–14	none	*1.36*
B	■C	Phoenix Balanced Fund/Phoenix	—*	14.2	4.2	699	43	4.75	*0.90*
C	B	Phoenix Convertible Fund/Phoenix	14.6	6.5	5.0	159	5	4.75	*1.08*
		Plymouth Income & Growth/Fidelity	—*	15.8	4.3	92	49	4.75	*1.85*
C	C	ProvidentMutual Total Return/Provident	11.5	–2.0	3.4	64	–8	6.00	*1.54*
		Prudential IncomeVertible +#/Prudential	—*	6.9	7.6	419	–20	5.25	*1.32*
C	D	Putnam Convert Income-Growth/Putnam	11.5	5.7	7.0	559	–22	5.75	*1.19*
		Putnam Dividend Income Fund/closed-end	—*	13.2	12.7	182	72	NA	0.85
A	D	George Putnam Fund of Boston/Putnam	14.0	9.5	5.2	467	6	5.75	*1.00*
■C	■C	Rea-Graham Balanced Fund/Rea	—*	0.9	6.4	33	–20	4.75	*2.04*
D	A	Seligman Income Fund/Seligman	11.8	5.2	8.9	137	–8	4.75	0.76
B	B	Sentinel Balanced Fund/Equity	14.6	9.2	5.9	83	6	8.50	0.86
		Shearson Income–Utilities/Shearson	—*	10.4	6.8	825	34	5.00b	*1.65*
		Shearson Principal Return/Shearson	—*	6.1	6.4	118	–15	5.00	0.83
C	D	SteinRoe Total Return Fund/Stein Roe	9.7	9.7	5.0	141	1	none	0.91
D	■A	Strong Investment Fund/Strong	—*	7.4	6.0	205	–11	1.00	1.30
C	■B	Strong Total Return Fund/Strong	—*	1.6	3.3	624	–23	1.00	1.33
		SunAmerica Bal Assets/SunAmerica	—*	3.9	1.6	90	–28	5.00b	*1.99p*
		SunAmerica Multi-Asset–Tot Ret/SunAmerica	—*	–2.2	4.0	29	–11	5.75	*2.05*
		TCW Convertible Securities Fund/closed-end	—*	8.1	6.6	162	–3	NA	0.94
C	B	Transamerica Growth & Income/Transamerica	12.2	5.3	1.8	71	3	4.75	1.29
		20th Century Balanced Inv/20th Century	—*	6.8	3.1	130	115	none	1.00
A	D	United Continental Income Fund/Waddell	13.6	4.2	4.8	307	–4	8.50	0.85
B	C	United Retirement Shares/Waddell	12.8	5.1	4.0	195	21	8.50	0.88
		USAA Investment–Balanced/USAA	—*	6.7	4.8	47	23	none	0.98p
		Vanguard Asset Allocation/Vanguard	—*	9.0	5.1	219	23	none	0.51
		Vanguard Convertible Securities/Vanguard	—*	3.0	6.1	51	–7	none	0.86
		Vanguard STAR Fund/Vanguard	—*	7.8	6.1	1,267	18	none	0.44
C	A+	Vanguard Wellesley Income Fund/Vanguard	14.6	9.7	7.9	1,336	45	none	0.40
A	C	Vanguard Wellington Fund/Vanguard	14.1	8.2	5.7	3,010	29	none	0.36

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Distributor table, page 294. Rules, page 210.

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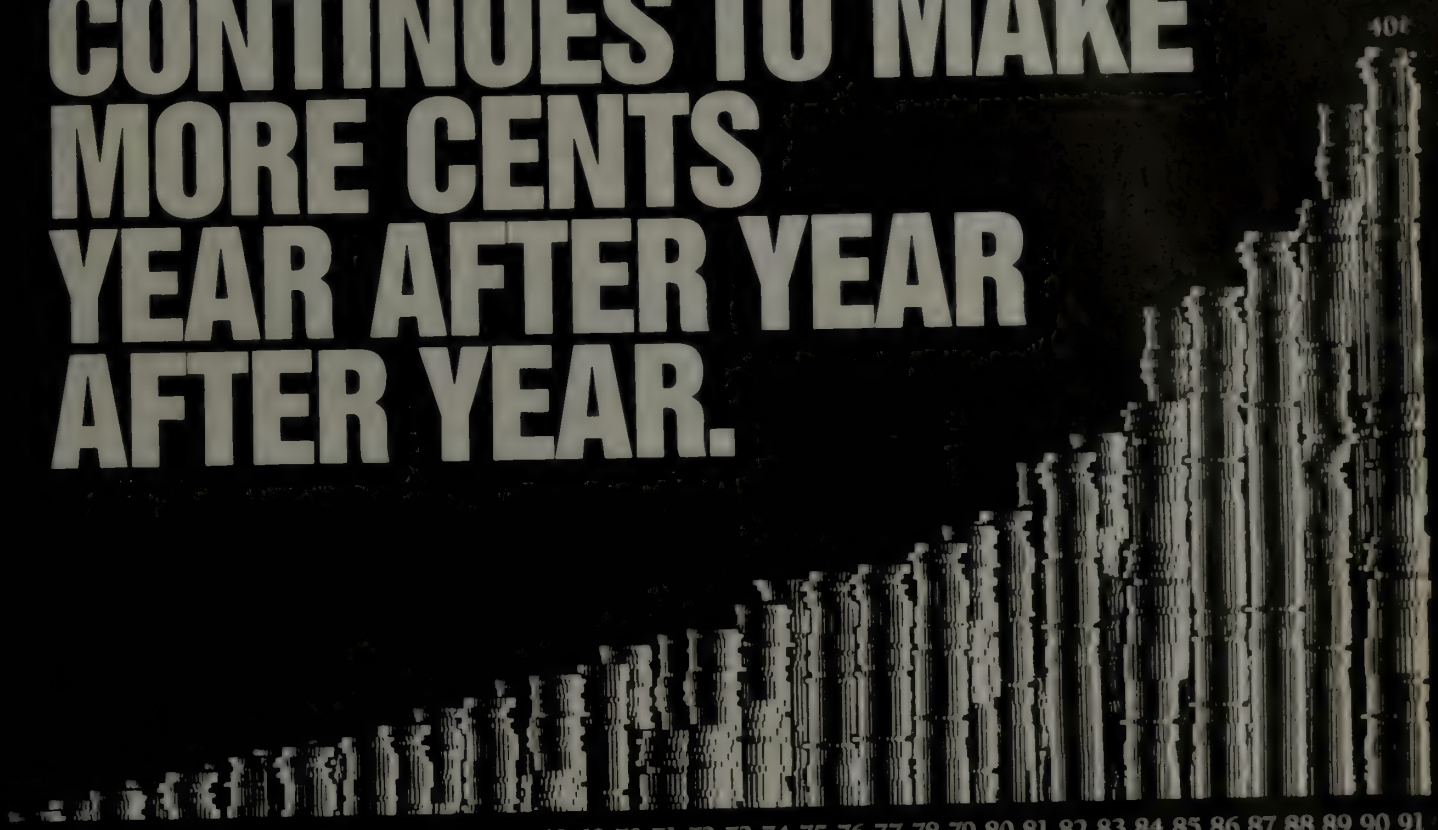

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Global stock funds

Global funds mix foreign and U.S. securities; funds that buy almost exclusively abroad are found in the foreign stock fund table on page 258. The globals provide investors with a high degree of diversity. Over the last 12 months, for instance, foreign stocks were disasters, at least for an investor who measures performance in dollars: The Morgan Stanley index for Europe, Australia and the Far East that we use as our foreign stock benchmark was off 12.8%. But the S&P 500 was up 7.4%, dividends inclu cushioning the blow. Thus, the average global fund ir table had a return of –3.3% over 12 months. Within ou of global funds are a number of sector funds. Both Oppenheimer Global Bio-Tech Fund and GT Gl Healthcare Fund managed to show respectable dou digit returns over the last 12 months. But the return o MetLife-State Street Global Energy Fund was –18.3

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 7/82 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Ann exper per $
		Blended domestic and foreign stock index	21.2%	–1.7%	2.7%				
		Forbes global fund composite	17.7%	–3.3%	2.5%				$1.7
		AMA Family of Funds–Global Growth/AMA	—*	–3.7%	2.4%	$93	–15%	4.75%	*$1.7*
		Bailard Biehl & Kaiser Diversa/Bailard	—*	–2.8	3.9	64	–35	none	1.5
		Benham Gold Equities Index/Benham	—*	–9.7	0.6	133	58	none	0.7
		Blanchard Precious Metals Fund/Sheffield	—*	–3.3	none	28	–8	—[1]	*3.0*
		Blanchard Strategic Growth/Sheffield	—*	–3.0	2.3	181	–26	—[1]	*2.3*
		Clemente Global Growth Fund/closed-end	—*	–12.7	none	63	–14	NA	3.0
		Colonial Advanced Strategies Gold/Colonial	—*	–8.9	2.6	46	–22	5.75	*1.9*
■C	C	Dean Witter World Wide Inv/Dean Witter	—*	–7.9	1.5	260	–20	5.00b	*2.2*
		Dreyfus Strategic World Inv/Dreyfus	—*	7.0	none	35	59	3.00	*1.5*
		Fidelity Select–American Gold/Fidelity	—*	–6.8	none	189	–4	3.00	1.75
		Fidelity Worldwide Fund/Fidelity	—*	–14.4	0.9	98	561	—[2]	1.82
A	D	First Investors Global Fund/First Inv	19.4%	–12.0	none	217	–12	6.90	*1.88*
		Freedom Inv II–Global Fund/Freedom	—*	–9.1	none	29	–30	3.00b	*2.56*
		GAM Global Fund/GAM	—*	–14.8	none	27	3	5.00	2.45
		GT Global Growth–Worldwide/GT Global	—*	–5.0	0.7	106	25	4.75	*2.10*
		GT Global Healthcare/GT Global	—*	21.3	1.0	370	225	4.75	*1.91*
		John Hancock Global/Hancock	—*	–10.3	1.3	78	–24	4.50	*2.08*
		IDS Global Growth Fund/IDS	—*	–3.1	1.7	33	444	5.00	*1.81*
		Lexington Global Fund/Lexington	—*	–7.5	1.0	52	–6	none	1.59
D	D	Lexington Goldfund/Lexington	10.1	–1.9	0.8	107	–12	none	1.36
		Lord Abbett Global–Equity/Lord Abbett	—*	–7.0	1.8	34	–7	6.75	*1.46p*
		Merrill Lynch Global Allocation#/ML Funds	—*	11.9	7.5	192	6	6.50	1.29
■C	■A	Merrill Lynch Intl Holdings#/ML Funds	—*	–7.6	2.4	199	–12	6.50	1.59
		MetLife-State Street Global Energy/MetLife	—*	–18.3	0.7	30	–16	4.50	*1.75p*
		MFS Lifetime Global Equity Trust/Mass Finl	—*	–5.4	0.3	87	11	6.00b	*2.93*
		National Global Allocation/National Secs	—*	–3.4	4.3	63	–25	5.75	*2.11*

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Distributor table, page 294. Rules, page 210.

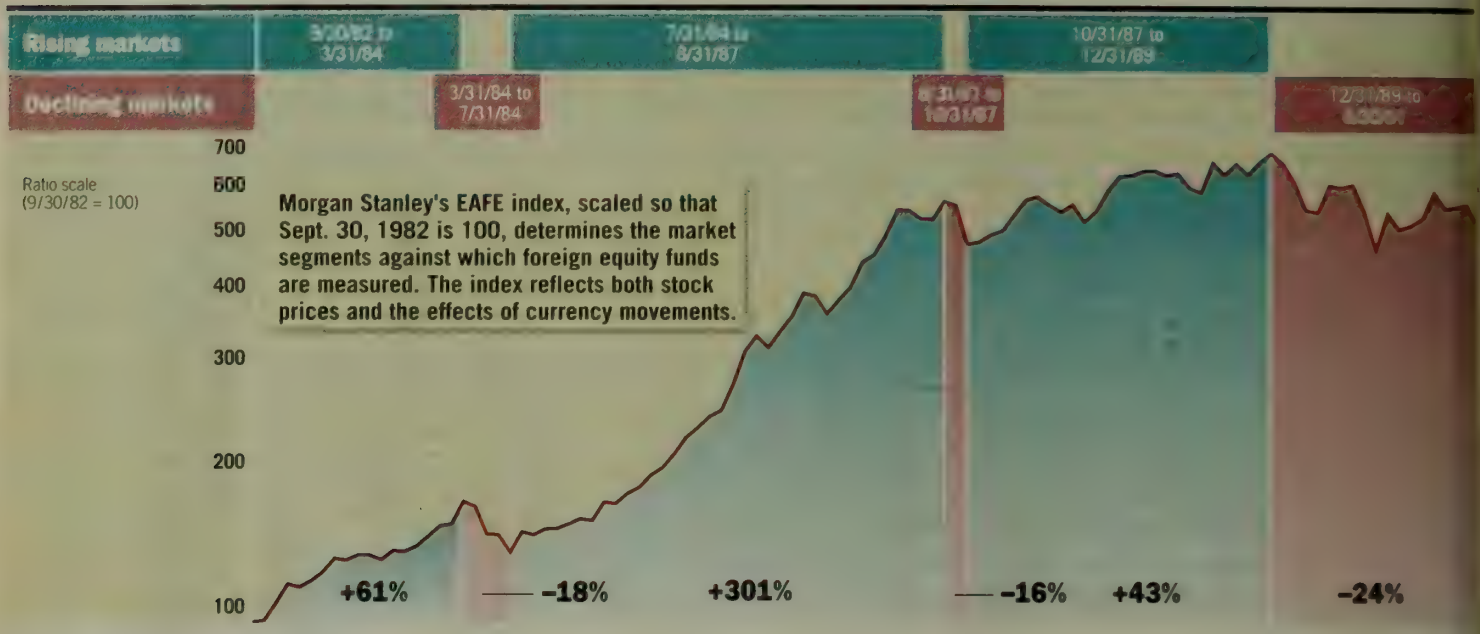
Performance UP markets	DOWN markets	Fund/distributor	Total return: Annual average 7/82 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Blended domestic and foreign stock index	21.2%	-1.7%	2.7%				
		Forbes global fund composite	17.7%	-3.3%	2.5%				$1.75
		National World Wide Oppor/National Secs	—*	-5.3%	4.4%	$60	-15%	5.75%	*$1.34p*
C	B	New Perspective Fund/American Funds	18.3%	-1.1	2.7	1,913	22	5.75	*0.82*
		Oppenheimer Global Bio-Tech/Oppenheimer	—*	31.7	none	68	441	†	*1.61*
		Oppenheimer Global Environment/Oppenheimer	—*	-12.7	0.7	63	87	4.75	*1.62*
B	C	Oppenheimer Global Fund/Oppenheimer	19.6	-8.4	0.6	913	13	8.50	1.77
■A	■B	PaineWebber Atlas Global Growth[1]/PaineWebber	—*	-8.3	3.4	205	-5	4.50	*1.56*
		PaineWebber Global Energy Fund[1]/PaineWebber	—*	-4.4	1.1	55	22	5.00b	*2.39*
		PaineWebber Global Growth & Inc[1] [2]/PaineWebber	—*	-5.0	7.3	85	-17	4.50	*2.02*
D	A	Pax World Fund/Pax World	17.1	14.7	4.0	179	66	none	*1.17*
■B	■C	Prudential Global Fund#/Prudential	—*	-6.9	2.1	258	-22	5.25	*1.57*
		Prudential Global Genesis#/Prudential	—*	-11.7	none	42	1	5.25	*3.13*
		Prudential Global Nat Resources#/Prudential	—*	-4.6	1.9	32	-30	5.25	*2.27*
B	C	Putnam Global Growth[3]/Putnam	20.7	-5.0	2.0	605	-4	5.75	*1.49*
		Scudder Global Fund/Scudder	—*	-5.2	3.4	268	4	none	1.81
		Scudder Gold Fund/Scudder	—*	-3.1	none	33	93	none	2.50p
■C	■D	Shearson Global Oppor/Shearson	—*	-8.3	1.7	59	-25	5.00	1.70
		Shearson Invest-Precious Metals/Shearson	—*	-7.9	0.3	50	-27	5.00b	*2.45*
		Smallcap World Fund/American Funds	—*	6.5	2.4	760	10	†	*1.29*
		Templeton Emerging Markets/closed-end	—*	12.3	1.5	183	-2	NA	1.86
		Templeton Global Oppor/Templeton	—*	1.8	2.8	178	-1	6.25	*1.65*
		Templeton Global Utilities/closed-end	—*	5.2	5.8	34	0	NA	1.54
C	B	Templeton Growth Fund/Templeton	18.6	1.4	3.6	2,685	1	8.50	0.76
		Templeton Income Fund/Templeton	—*	9.0	9.5	123	13	4.50	1.04
		Templeton Real Estate Secs/Templeton	—*	5.1	3.7	32	182	8.50	1.25p
C	C	Templeton Smaller Cos Growth/Templeton	17.8	3.5	2.2	847	-5	8.50	0.88
		Templeton Value Fund/Templeton	—*	3.2	0.3	142	-20	8.50	1.48
C	C	Templeton World Fund/Templeton	17.8	-1.8	3.6	3,992	-13	8.50	0.72
		Thomson Fund-Global#/Thomson	—*	-11.1	none	34	-29	5.50	*1.69*
■D	■C	United Services-Global Res/United	—*	-1.3	0.7	28	-11	none	2.26p
		United Services-World Gold[4]/United	—*	-7.0	none	65	-10	none	2.08
		USAA Investment-Cornerstone/USAA	—*	1.4	3.6	573	0	none	1.18
		Van Eck Gold/Resources Fund/Van Eck	—*	-8.2	0.7	158	-19	6.75	*1.44*
		Van Eck World Trends Fund/Van Eck	—*	-7.3	3.0	46	-18	5.75	*1.71*
		Vanguard World-Intl Growth[5]/Vanguard	—*	-11.9	2.0	825	0	none	0.77
		Vanguard World-US Growth[5]/Vanguard	—*	9.5	1.5	651	87	none	0.66
		Worldwide Value Fund/closed-end	—*	-14.6	2.1	48	-16	NA	2.40
		Yamaichi Global Fund/Yamaichi	—*	-14.4	none	59	-28	4.75	*1.58*

■ Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* [1]As of 7/1/91 two classes of shares available, one with front-end load, the other with exit fee and 12b-1. [2]Formerly PaineWebber Classic World. [3] Formerly Putnam International Equities. [4]Formerly United Services—New Prospector. [5]Half of the Ivest Fund, which split in two on 9/85. b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 294. Rules, page 210.

Foreign stock funds

U.S.-based stock funds with predominantly foreign portfolios are in this table. The benchmark for measuring these funds is a Morgan Stanley index that tracks the performance, in U.S. dollars, of over 1,000 stocks in Europe, Australia and the Far East. This index was off 12.8% for the 12 months ended in June—reflecting not only the price movements of foreign stocks but also strength in the dollar against most foreign currencies. The T. Rowe Pric International Stock Fund was the only foreign stock fun to qualify for our honor roll (page 160), which demands good long-term return and a good down market grade. T be listed in the following table, a fund must be based in th U.S., have at least $25 million in assets and have at least full year of performance history.



Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 9/82 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Morgan Stanley Capital Intl EAFE index	22.1%	–12.8%	2.1%				
		Forbes foreign stock fund composite	14.9%	–8.3%	2.3%				$1.67
B	C	Alliance International Fund#/Alliance	18.6%	–19.4%	0.2%	$218	–18%	5.50%	*$1.53*
		Alliance New Europe Fund/Alliance	—*	–22.7	8.3	129	–48	5.50	*1.52*
C	D	ASA Limited/closed-end	5.4	–12.4	7.5	450	–18	NA	0.43
		Asia Pacific Fund/closed-end	—*	–9.4	0.6	118	–18	NA	1.85
		Austria Fund/closed-end	—*	–26.2	2.1	88	–29	NA	1.75
		Boston Co Inv–International/Boston Co	—*	–14.4	1.5	27	–24	none	*1.60*
		Brazil Fund/closed-end	—*	41.7	none	169	42	NA	2.25
		Chile Fund/closed-end	—*	88.7	3.9	155	78	NA	2.04
		Counsellors International Equity/Counsellors	—*	–0.4	2.9	57	71	none	1.46p
		Dean Witter European Growth/Dean Witter	—*	–14.1	0.8	289	26	5.00b	*2.41*

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Distributor table, page 294. Rules, page 210.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 9/82 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Morgan Stanley Capital Intl EAFE index	22.1%	-12.8%	2.1%				
		Forbes foreign stock fund composite	14.9%	-8.3%	2.3%				$1.67
		Emerging Germany Fund/closed-end	—*	-22.2%	2.3%	$120	-24%	NA	$1.37
■C	■C	EuroPacific Growth Fund/American Funds	—*	-2.4	1.9	1,276	58	5.75%	*1.28*
		Europe Fund/closed-end	—*	-10.7	5.9	102	-16	NA	NA
		European Emerging Companies/USF&G	—*	-25.1	0.4	26	-27	5.75	*2.25p*
		Fenimore International–Equity/Burnham	—*	-3.3	none	36	-21	5.00	*2.88p*
		Fidelity Europe Fund/Fidelity	—*	-18.9	2.6	287	-36	3.00	1.36
		Fidelity Intl Growth & Income/Fidelity	—*	-5.2	3.3	37	2	2.00[7]	2.01p
		Fidelity Overseas Fund/Fidelity	—*	-15.0	2.8	911	-18	3.00	1.55
		Fidelity Pacific Basin Fund/Fidelity	—*	-12.9	1.3	100	-2	3.00	1.97
D	D	Fidelity Select–Prec Metals & Mins/Fidelity	4.9%	1.6	1.2	186	1	3.00	1.79
		Financial Series–Intl Growth/Invesco	—*	-11.2	0.2	40	-11	none	1.48p
		Financial Strategic–European/Invesco	—*	-12.5	2.5	65	-28	none	1.29
		First Australia Fund/closed-end	—*	2.8	4.5	58	-2	NA	2.14
		First Iberian Fund/closed-end	—*	-15.9	7.3	56	-25	NA	2.18
		Flag Investors International Trust/Brown	—*	-21.7	none	41	-19	4.50	*1.50p*
		France Growth Fund/closed-end	—*	-8.2	6.5	111	-13	NA	2.18
C	C	Franklin Gold Fund/Franklin	9.9	0.3	2.7	287	3	4.00	0.75
		Future Germany Fund/closed-end	—*	-23.4	1.7	160	-29	NA	1.12
		GAM International Fund/GAM	—*	-11.6	0.1	35	36	5.00	2.30
		GAM Pacific Basin Fund/GAM	—*	-1.7	3.9	26	126	5.00	3.74
		Germany Fund[2]/closed-end	—*	-22.5	1.1	132	-24	NA	1.31
		Growth Fund of Spain/closed-end	—*	-12.3	3.3	190	-16	NA	1.38
		GT Global Growth–Europe/GT Global	—*	-18.9	none	1,344	-21	4.75	*1.90*
		GT Global Growth–International/GT Global	—*	-6.4	1.3	432	24	4.75	*1.90*
		GT Global Growth–Japan/GT Global	—*	-16.8	none	71	-2	4.75	*2.25p*
B	B	GT Global Growth–Pacific/GT Global	21.6	-0.7	2.7	321	21	4.75	*2.10*
		GT Greater Europe Fund/closed-end	—*	-21.0	1.3	180	-22	NA	1.89
		Harbor International/HCA	—*	-3.3	2.0	121	96	none	1.35
		IAI International Fund/IAI Funds	—*	-7.5	1.2	32	-2	none	*1.73*
		IDS International Fund/IDS	—*	-11.6	1.9	220	-8	5.00	1.36
		IDS Precious Metals Fund/IDS	—*	-3.5	2.2	72	-12	5.00	1.48
		IDS Strategy–Worldwide Growth[3]/IDS	—*	-16.7	none	39	-18	5.00b	*2.47*
		Indonesia Fund/closed-end	—*	-31.1	0.4	45	-36	NA	2.15
		International Equity[4]/Federated	—*	-12.1	1.5	87	10	4.50	1.32p
		Irish Investment Fund/closed-end	—*	-17.4	3.7	45	-20	NA	1.70
		Italy Fund/closed-end	—*	-21.0	5.3	72	-28	NA	1.70
		Ivy International Fund/Ivy	—*	-9.1	2.7	78	-3	none	1.68
		Jakarta Growth Fund/closed-end	—*	-24.8	3.4	40	-27	NA	1.83
B	A	Japan Fund/Scudder	23.0	-6.6	1.7	351	-8	none	1.23
		Japan OTC Equity/closed-end	—*	7.1	1.9	107	1	NA	1.43
C	B	Kemper International Fund/Kemper	18.6	-6.8	1.3	190	-12	5.75	1.31

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Distributor table, page 294. Rules, page 210.

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 9/82 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	An exp per
		Morgan Stanley Capital Intl EAFE index	22.1%	–12.8%	2.1%				
		Forbes foreign stock fund composite	14.9%	–8.3%	2.3%				$1.
C	C	Keystone International Fund/Keystone	11.9%	–11.2%	none	$71	–26%	4.00b%	$3
D	D	Keystone Precious Metals/Keystone	5.0	0.8	0.8%	152	–10	4.00b	2
C	C	Kleinwort Benson Intl Equity/Kleinwort	19.1	–9.1	1.0	75	–19	none	1
		Korea Fund[1]/closed-end	—*	–14.2	none	228	–25	NA	1
		Malaysia Fund/closed-end	—*	5.2	1.4	107	3	NA	1.
		Merrill Lynch EuroFund#/ML Funds	—*	–9.3	2.4	556	–9	6.50	1.
A	C	Merrill Lynch Pacific Fund#/ML Funds	27.0	13.3	4.6	372	14	6.50	1.
A	A+	Mexico Fund[1]/closed-end	43.0	59.8	1.5	464	56	NA	1.
		New Germany Fund/closed-end	—*	–21.1	1.8	317	–26	NA	0.9
		Nomura Pacific Basin Fund/Nomura	—*	2.5	3.8	55	–9	none	1.4
■C	C	Oppenheimer Gold & Spec Mins/Oppenheimer	—*	–10.7	0.4	150	–8	8.50	1.4
		Pacific-European Growth Fund/closed-end	—*	–8.2	2.0	35	–9	NA	1.7
		PaineWebber Europe Growth Fund[2]/PaineWebber	—*	–17.7	1.4	141	–11	4.50	1.7
		Portugal Fund/closed-end	—*	–24.8	1.1	54	–26	NA	2.0
		T Rowe Price Intl Discovery/Price	—*	–12.8	1.2	172	5	none	1.5
		T Rowe Price Intl European Stock/Price	—*	–15.0	2.2	91	–4	none	1.7
B	B	T Rowe Price Intl Stock/Price	20.4	–9.1	1.7	1,291	11	none	1.1
		Rodney Square Intl Equity/Rodney Sq	—*	–13.4	1.2	54	–25	5.75	1.7
C	B	Scudder International Fund/Scudder	20.4	–11.1	1.7	899	–4	none	1.1
		Scudder New Asia Fund/closed-end	—*	–3.7	0.5	111	–16	NA	1.7
		Scudder New Europe Fund/closed-end	—*	–13.0	2.5	160	–18	NA	1.8
		Shearson Equity–International/Shearson	—*	–7.2	0.1	41	–30	5.00b	2.6
		Spain Fund/closed-end	—*	–17.8	2.4	111	–27	NA	2.22
D	F	Strategic Investments Fund/Strategic	–6.2	–0.2	3.5	32	–9	8.50	1.98
		Swiss Helvetia Fund/closed-end	—*	–14.7	0.4	101	–15	NA	1.77
		Taiwan Fund[1]/closed-end	—*	25.1	none	141	89	NA	2.34
■B	A	Templeton Foreign Fund/Templeton	—*	–5.1	3.5	1,119	27	8.50	0.82
		Thai Fund/closed-end	—*	–19.7	1.3	158	–29	NA	1.35
		Turkish Investment Fund/closed-end	—*	–50.8	none	53	–51	NA	2.00
		United Gold & Government Fund/Waddell	—*	–0.2	1.7	52	–17	8.50	1.65
C	A	United International Growth/Waddell	15.6	–10.4	2.0	259	–11	8.50	1.20
		United Kingdom Fund/closed-end	—*	–6.1	2.2	41	–13	NA	2.19
D	D	United Services–Gold Shares/United	0.9	–3.8	2.8	295	0	none	1.50
		USAA Investment–Gold Fund/USAA	—*	–6.6	0.9	134	–6	none	1.46
		USAA Investment–International/USAA	—*	–10.6	0.6	26	11	none	1.81
		UST Master Funds–International/UST Secs	—*	–10.7	1.7	36	40	4.50	1.61
C	D	Van Eck International Investors/Van Eck	8.4	1.4	1.9	658	–6	8.50	0.97
		Vanguard Intl Index–Europe/Vanguard	—*	–12.4	1.8	132	172	none	0.40
		Vanguard Intl Index–Pacific/Vanguard	—*	–9.8	0.6	67	354	none	0.35
■D	■C	Vanguard Special–Gold & Prec/Vanguard	—*	2.6	3.3	175	9	none§	0.42
■A	B	Vanguard Trustees Comm–Intl/Vanguard	—*	–14.5	3.7	843	3	none	0.44

■ Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. §Distributor may impose redemption fee, which proceed revert to the fund. #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for entir fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load tha reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available [1]Fund performance adjusted for secondar offering. [2]As of 7/1/91 two classes of shares available, one with front-end load, the other with exit fee and 12b-1.

Distributor table, page 294. Rules, page 210.

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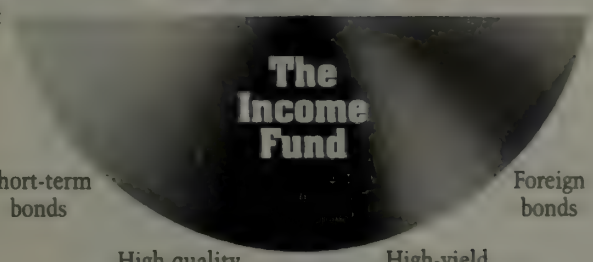

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Global bond funds

Funds that buy bonds from foreign governments and bonds and commercial paper from overseas corporations are listed here; many of the funds, especially those with "global" in the name, also buy U.S. paper. Such funds are a fairly new investment tool for U.S. investors, so new, in fact, that only one, MFS Worldwide Governments, has enough history to show a long-term return. On average, global bond funds delivered a 9.9% total return over the last 12 months. In the 1990 survey they averaged a one-year total return of 13.6%. These funds are a bet on two things: a decline in interest rates abroad and a decline in the value of the dollar. Over the past year the dollar was fairly strong against most foreign currencies. As a result, these funds didn't perform as well as they did a year earlier.

	Total return		Yield	Assets		Maximum sales charge	Annual expenses per $100
	Annual average 9/82 to 6/91	Last 12 months		6/30/91 (millions)	% change '91 vs '90		
Forbes global bond fund composite		**9.9%**	**10.6%**				**$1.42**
ACM Managed Multi-Market Trust/closed-end	—*	12.1%	13.8%	$111	-2%	NA	$2.90
Alliance Short-Term Multi-Market#/Alliance	—*	10.5	10.5	5,202	448	3.00%	*1.18*
Capital World Bond Fund/American Funds	—*	12.4	7.5	60	63	4.75	*1.52*
Dean Witter World Wide Income/Dean Witter	—*	4.1	12.7	434	1	5.00b	*1.76*
Fidelity Global Bond Fund/Fidelity	—*	12.2	8.9	130	61	none	1.43
First Australia Prime Income/closed-end	—*	20.1	12.0	886	5	NA	1.54
Franklin Global Opportunity Inc/Franklin	—*	8.2	12.2	43	134	4.00	0.25p
Freedom Inv II–Global Income/Freedom	—*	10.4	9.3	181	-5	3.00b	*1.90*
Global Government Plus/closed-end	—*	8.0	6.7	346	-7	NA	1.09
Global Income Plus Fund/closed-end	—*	8.6	12.7	232	-3	NA	1.21
Global Yield Fund/closed-end	—*	6.7	10.3	554	-6	NA	1.03
GT Investment–Global Bond/GT Global	—*	7.6	9.9	47	18	4.75	*1.82*
IDS Global Bond Fund/IDS	—*	8.2	9.9	46	132	5.00	*1.73p*
Intl Currency–Global[1]/Huntington	—*	8.2	7.5	68	-10	2.25	*1.82*
Intl Currency–Hard Currency/Huntington	—*	3.3	7.4	31	13	2.25	*1.66*
Intl Currency–High Income/Huntington	—*	6.7	10.5	54	223	2.25	*1.59*
Kleinwort Benson Australian Inc/closed-end	—*	17.7	9.3	70	7	NA	1.68
Merrill Lynch Global Bond Inv & Ret[2]#/ML Funds	—*	10.1	13.3	302	9	4.00	1.06
MFS Worldwide Governments[3]/Mass Finl	13.7%	8.4	8.2	172	41	4.75	*1.44*
PaineWebber Global Income Fund[4]/PaineWebber	—*	10.8	12.9	1,470	33	5.00b	*1.86*
T Rowe Price International Bond/Price	—*	9.7	8.9	286	-7	none	1.15
Putnam Global Governmental Income/Putnam	—*	14.0	8.1	287	46	4.75	*1.65*
Putnam Master Income Trust/closed-end	—*	12.3	10.0	446	-2	NA	1.08
Putnam Premier Income Trust/closed-end	—*	9.4	10.0	1,099	-4	NA	1.02
Scudder International Bond/Scudder	—*	14.9	9.8	144	96	none	1.35p
Shearson Income–Global Bond/Shearson	—*	9.0	16.5	49	-20	5.00b	*2.00*
Shearson S-T World Income/Shearson	—*	6.1	10.8	492	NM	3.00	*1.25p*
Templeton Global Govt Income/closed-end	—*	4.2	10.6	178	-4	NA	1.09
Templeton Global Income Fund[5]/closed-end	—*	11.7	10.7	966	0	NA	0.82
Van Eck World Income Fund/Van Eck	—*	9.7	10.2	91	114	4.75	*1.61*
World Income Fund/closed-end	—*	10.6	16.0	285	-4	NA	0.87

*Fund not in operation for full period. #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. NM: Not meaningful. [1]Invests in foreign money market instruments. [2]Formerly Merrill Lynch Retirement Global Bond. [3]Formerly Mass Financial International-Bond. [4]As of 7/1/91 two classes of shares available, one with front-end load, the other with exit fee and 12b-1. [5]Fund performance adjusted for secondary offering.

Distributor table, page 294. Rules, page 210.

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Hot funds

Pay attention to these funds. They're either popping up as hot performers over the past year or gaining assets rapidly—or both. Neither kind of gain, of course, is a good reason in itself to buy a fund. Rather, these lists give you a quick look at the fads and trends that will be affecting the pitches you hear for funds. Health care stocks, for instance, have done well recently, and as a result a lot of buyers are crowding into health sector funds. Should you join the rush? Not before taking a long look at the stocks these funds own, and their sometimes steep price/earnings ratios. The Chile, Mexico and Brazil funds have also been sizzling of late.

The standout seller in fixed-income investing is Alliance Short-Term Multi-Market, which picked up $4.3 billion of assets in 12 months. "People were rolling over CDs and seeing numbers that they hadn't seen in several years," says Robert Sinche, the Alliance Fund's portfolio manager. They see the yields offered by Sinche's portfolio of mostly overseas bonds and buy. Sinche, reminding buyers that his fund is chancier than an insured certificate of deposit, nonetheless says he limits currency risk with hedges. Unfortunately, there is no way to get a 10.5% return without taking some kind of risk—with currencies, interest rates or credit quality.

Fund/distributor	Type	Assets 6/30/91 ($mil)	Assets change vs 6/30/90 ($mil)	Assets change vs 6/30/90 %	12-month total return	Manager (years)
Big performers						
Chile Fund/closed-end	foreign stock	$155	$68	78%	88.7%	Emilio Bassini (1)
Mexico Fund/closed-end	foreign stock	464	167	56	59.8	Jose Luis Gomez Pimienta (10)
Fidelity Select–Biotechnology/Fidelity	US stock	483	326	208	49.9	Michael Gordon (1)
Fidelity Select–Health Care/Fidelity	US stock	639	347	119	45.0	Andrew Offit (1)
Fidelity Select–Medical Delivery/Fidelity	US stock	119	75	166	43.3	Charles Mangum
Brazil Fund/closed-end	foreign stock	169	50	42	41.7	Edmund B Games Jr (3)
Financial Strategic–Health Sci/Invesco	US stock	360	272	309	41.5	John Kaweske (6)
Oppenheimer Global Bio-Tech/Oppenheimer	global stock	68	55	441	31.7	Kenneth Oberman (3)
H&Q Healthcare Investors/closed-end	US stock	87	16	23	31.4	Alan G Carr (4)
20th Century Ultra Investors/20th Century	US stock	1,147	749	189	30.1	Multiple managers[1] (8)
Bergstrom Capital/closed-end	US stock	89	16	22	29.2	Erik E Bergstrom (14)
Phoenix Multi–Capital Apprec/Phoenix	US stock	65	54	480	27.5	Robert Chesek (1)
Taiwan Fund/closed-end	foreign stock	141	66	89	25.1	Danny Chan (5)
Vanguard Special–Health Care/Vanguard	US stock	349	215	160	24.1	Edward Owens (7)
United New Concepts Fund/Waddell	US stock	86	20	31	23.7	Mark Seferovich (2)
Fast growers						
Alliance Short-Term Multi-Market/Alliance	global bond	$5,202	$4,253	448%	10.5%[2]	Robert Sinche (2)
Franklin Adj US Govt Securities/Franklin	US bond	2,360	2,044	646	9.3	Jack Lemein (3)
Investment Co of America/American Funds	US stock	7,643	1,769	30	8.3	Multiple managers[1] (8)
Washington Mutual Investors/American Funds	US stock	6,792	1,443	27	8.5	Multiple managers[1] (8)
Vanguard Fixed Income–GNMA/Vanguard	US bond	3,564	1,246	54	11.6	Paul Sullivan (11)
Fidelity Magellan Fund/Fidelity	US stock	15,252	1,213	9	9.7	Morris Smith (1)
Aim Equity–Weingarten Fund/AIM	US stock	1,663	979	143	10.3	Multiple managers[1] (7)
Franklin Calif Tax-Free Income/Franklin	municipal bond	11,775	856	8	7.2	Bernie Schroer (4)
20th Century Ultra Investors/20th Century	US stock	1,147	749	189	30.1	Multiple managers[1] (8)
Janus Fund/Janus	US stock	1,960	714	57	7.4	James P Craig III (6)

[1]Average tenure of managers, with ten years maximum credit for each. [2]Fund has two classes of shares. Performance is for A shares; assets are for entire fund.

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Taxable bond funds

To make the list below, a fund must have at least $100 million in assets and at least a full year of performance history. To be graded, a fund must have five years of results. Our benchmark for the grading system is the Merrill Lynch corporate/government bond index. Each month in the period is pegged as bearish or bullish, according to the price of the Merrill Lynch index. For each rated fund a composite bull market performance (incorporating both price and interest return) is calculated and funds are awarded grades on a curve. The same exercise is done to score bear market performance. Junk bond funds are graded with a slightly different formula; see page 278. Municipal bond funds are graded in a table beginning on page 280. Global bond funds are on page 264.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 6/86 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	8.3%	10.4%	8.6%				
		Forbes taxable bond fund composite	7.8%	9.9%	9.1%				$1.05
		AAL Income Fund/AAL	—*	10.3%	7.9%	$146	42%	4.75%	*$1.00p*
D	A	AARP Inc–GNMA & US Treas/Scudder	8.4%	10.6	8.3	2,942	15	none	0.79
C	C	AARP Inc–High Quality Bond/Scudder	7.6	9.0	7.5	174	19	none	1.14p
		ACM Government Income Fund/closed-end	—*	11.5	12.7	473	–1	NA	1.37
		ACM Government Opportunity/closed-end	—*	11.9	11.9	104	1	NA	1.24
		ACM Government Securities/closed-end	—*	11.3	12.9	657	–1	NA	1.32
		ACM Government Spectrum/closed-end	—*	11.0	11.9	267	–1	NA	1.42
		ACM Managed Income Fund/closed-end	—*	11.2	12.4	157	–38	NA	1.10
D	C	Advantage Government Securities/Advest	5.5	10.9	8.0	104	–8	4.00b	*1.43p*
		Aim Limited Maturity Treasury Shs/AIM	—*	9.2	7.3	124	67	1.75	*0.54p*

*Fund not in operation for full period. †Closed to new investors. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* §Distributor may impose redemption fee, which proceeds revert to the fund. b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 294. Rules, page 210.

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 6/86 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	8.3%	10.4%	8.6%				
		Forbes taxable bond fund composite	7.8%	9.9%	9.1%				$1.05
D	B	Alliance Bond–US Government/Alliance	7.8%	9.0%	10.4%	$491	–4%	4.75%	*$1.11*
C	B	Alliance Mortgage Secs Income/Alliance	9.2	12.9	9.9	495	–3	4.75	*1.12*
		Allstate Prime Income Trust[1]/closed-end	—*	9.4	9.0	471	105	NA	1.48
		American Adj Rate Term–1995/closed-end	—*	10.0	9.3	107	0	NA	0.65
C	D	American Capital Bond Fund/closed-end	5.7	9.6	9.5	204	0	NA	0.71
D	B	American Capital Corp Bond/American Cap	7.7	10.7	9.3	185	–9	4.75	*0.94*
B	D	American Capital Govt Secs/American Cap	7.5	11.9	8.8	3,732	–9	4.75	*0.93*
		American Capital Income Trust/closed-end	—*	9.2	12.5	110	–4	NA	1.00
		American Government Income/closed-end	—*	16.6	11.4	148	5	NA	0.99
		American Government Income Port/closed-end	—*	16.9	11.1	217	6	NA	0.99
		American Opportunity Income/closed-end	—*	13.6	11.2	195	2	NA	1.06
C	B	AMEV Securities/closed-end	8.5	14.7	10.9	112	5	NA	0.90
C	B	AMEV US Govt Securities Fund/AMEV	8.7	10.8	9.4	352	127	4.50	0.81
B	C	Babson Bond–Portfolio L/Jones & Babson	7.9	9.0	8.6	102	21	none	0.97
D	B	Bartlett Capital–Fixed Income/Bartlett	7.9	8.5	7.4	148	–6	none	1.00
B	B	Benham GNMA Income/Benham	9.5	11.4	8.6	495	61	none	0.72
A+	F	Benham Target Maturities–2005/Benham	14.1	11.6	3.9	121	220	none	0.70p
		Benham Target Maturities–2015/Benham	—*	7.9	5.4	230	–28	none	0.62
C	D	Benham Treasury Note Fund/Benham	6.8	10.0	7.3	194	87	none	0.73
		Bernstein Govt Short Duration/Bernstein	—*	9.3	7.1	205	19	none	0.70
		Bernstein Intermed Duration/Bernstein	—*	10.3	7.9	331	35	none	0.68
		Bernstein Short Duration +/Bernstein	—*	10.0	7.6	413	5	none	0.67
		Blackstone Income Trust/closed-end	—*	18.0	12.1	534	5	NA	1.10
		Blackstone Target Term Trust/closed-end	—*	13.8	10.0	907	3	NA	0.92
C	C	Bond Fund of America/American Funds	7.8	9.2	9.5	2,291	33	4.75	*0.76*
D	A	Cardinal Government Obligations[2]/Cardinal	8.9	11.7	9.2	122	5	4.50	0.74
A	D	Cigna Income Fund/Cigna	7.3	7.8	8.4	218	–2	5.00	*1.00*
A	D	Colonial Government Secs Plus/Colonial	7.5	8.9	8.4	2,032	–14	4.75	*1.16*
D	B	Colonial Income Trust/Colonial	7.3	9.8	9.9	143	–6	4.75	*1.23*
		Colonial InterMarket Income I/closed-end	—*	9.8	11.7	119	–2	NA	1.11
		Colonial US Government Trust/Colonial	—*	10.4	10.1	311	273	4.75	*1.25p*
A	C	Columbia Fixed Income Secs/Columbia	8.7	10.2	7.9	164	38	none	0.68
		Common Sense–Government/Common Sense	—*	10.0	8.4	165	28	6.75	1.06
C	B	Composite US Govt Securities/Murphey	8.3	11.1	8.1	101	20	4.00	*1.03*
		Comstock Partners Strategy Fund/closed-end	—*	10.0	9.6	1,200	0	NA	0.93
		Dean Witter Government Income/closed-end	—*	11.4	8.2	550	3	NA	0.75
		Dean Witter Govt Secs Plus/Dean Witter	—*	9.1	7.9	1,265	–17	5.00b	*1.50*
		Dean Witter Intermed Income/Dean Witter	—*	7.1	8.6	113	–3	5.00b	*1.75*
D	A	Dean Witter US Govt Securities/Dean Witter	7.8	8.8	9.7	10,534	7	5.00b	*1.23*

*Fund not in operation for full period. †Closed to new investors. §Distributor may impose redemption fee, which proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Closed-end fund that acts like a money market. [2]Formerly Cardinal Government Guaranteed Fund.

Distributor table, page 294. Rules, page 210.

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 6/86 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	8.3%	10.4%	8.6%				
		Forbes taxable bond fund composite	7.8%	9.9%	9.1%				$1.05
D	A	Delaware Group Govt–Govt Inc II/Delaware	8.1%	10.5%	8.7%	$159	7%	6.75%	$1.10
A	D	Dreyfus A Bonds Plus/Dreyfus	7.6	8.8	8.4	368	15	none	0.85
C	B	Dreyfus GNMA Fund/Dreyfus	8.2	10.7	8.7	1,617	6	none	*0.97*
		Dreyfus Strategic Govt Income/closed-end	—*	9.9	10.0	158	0	NA	0.85
C	A	Eaton Vance Government Oblig/Eaton Vance	8.7	10.5	9.8	284	0	4.75	*1.22*
		Eaton Vance Prime Rate Res[1]/Eaton Vance	—*	8.8	8.9	1,937	12	3.00b	1.43
B	B	Federated GNMA Trust/Federated	9.7	11.6	8.8	1,288	–3	none	0.52
D	A	Federated Income Trust/Federated	9.1	11.1	8.9	987	1	none	0.50
D	A	Federated Intermediate Govt/Federated	7.9	10.5	7.5	740	–17	none	0.51
D	A+	Federated Short-Intermed Govt/Federated	7.7	9.6	7.4	1,220	–18	none	0.48
C	C	Fidelity Flexible Bond/Fidelity	7.5	9.9	8.8	456	17	none	0.67
B	B	Fidelity Ginnie Mae/Fidelity	8.8	11.5	8.1	776	22	none	0.80
C	C	Fidelity Government Securities/Fidelity	7.6	10.4	8.7	462	–5	none	0.66
D	B	Fidelity Intermediate Bond Fund/Fidelity	7.4	9.1	7.9	908	30	none	0.66
C	B	Fidelity Mortgage Securities/Fidelity	8.8	11.4	8.2	405	5	none	0.82
		Fidelity Short-Term Bond/Fidelity	—*	8.4	8.9	259	27	none	0.83
		First Boston Income Fund/closed-end	—*	13.8	11.2	193	1	NA	0.85
A	D	First Investors Government Fund/First Inv	7.9	9.2	7.6	308	33	6.90	*1.28p*
B	C	First Trust Fund–US Govt/Brown & Assoc	9.3	11.1	8.5	174	–20	4.50	*0.94*
		Flag Inv Total Return US Treas[2]/Brown	—*	7.8	8.5	373	16	4.50	*0.88*
A+	D	Fort Dearborn Income Securities/closed-end	8.6	9.3	9.1	104	1	NA	0.80
		Franklin Adj US Govt Securities/Franklin	—*	9.3	9.2	2,360	646	4.00	*0.30p*
		Franklin Principal Maturity Trust/closed-end	—*	9.7	10.8	163	–1	NA	0.98
C	A	Franklin US Government Securities/Franklin	9.5	12.2	9.5	11,810	5	4.00	0.52
		Franklin Universal Trust/closed-end	—*	5.8	14.7	188	–9	NA	1.19
A	D	Freedom Inv–Govt Income/Freedom	8.2	9.6	8.9	145	7	3.00b	*1.51*
D	A	Fund for US Govt Securities/Federated	9.2	10.8	9.2	1,181	13	4.50	0.95
		GNA Investors–US Govt Secs/GNA	—	9.9*	8.4	116	72	5.00b	*1.82*
C	A	Government Income Securities/Federated	9.0	11.0	9.5	1,402	9	1.75b	0.90
		Gradison Government Income/Gradison	—*	10.0	7.7	109	88	2.00	*1.08*
		GT Investment–Global Govt Income/GT Global	—*	9.1	11.3	352	75	4.75	*1.50*
		GW Sierra–US Govt Securities/Gt Western	—*	10.5	9.0	167	431	4.50	*1.10p*
B	C	John Hancock Bond Fund/Hancock	8.3	9.9	9.0	1,148	3	4.50	*1.31*
B	C	John Hancock Govt Spectrum[3]/Hancock	8.7	10.4	8.0	348	11	4.50	*1.41*
B	C	John Hancock Income Securities/closed-end	8.6	10.3	9.6	150	2	NA	0.69
B	C	John Hancock Investors Trust/closed-end	8.3	10.0	9.7	145	1	NA	0.71
D	C	John Hancock US Govt Securities/Hancock	6.5	8.1	8.5	187	5	4.50	*1.53*
		Helmsman–Income Fund/SEI	—*	9.2	7.6	197	242	none	0.40p
B	C	Home Investors Govt Income/SunAmerica	8.2	10.6	7.5	125	–8	5.00b	*1.93*

*Fund not in operation for full period. †Closed to new investors. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. §Distributor may impose redemption fee, which proceeds revert to the fund. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Closed-end fund that acts like a money market. [2]Assets include sister fund ISI Total Return. [3]Formerly John Hancock US Government Guaranteed Mortgage.

Distributor table, page 294. Rules, page 210.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 6/86 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	8.3%	10.4%	8.6%				
		Forbes taxable bond fund composite	7.8%	9.9%	9.1%				$1.05
		Hyperion Total Return Fund/closed-end	—*	14.1%	10.8%	$272	1%	NA	$1.10
A	D	IAI Bond Fund/IAI Funds	7.7%	9.0	7.9	114	28	none	*0.88*
B	D	IDS Bond Fund/IDS	7.7	12.2	8.5	1,835	3	5.00%	0.77
D	A	IDS Federal Income Fund/IDS	8.6	10.8	8.0	397	69	5.00	0.81
B	D	IDS Selective Fund/IDS	8.1	10.5	8.1	1,305	9	5.00	0.76
B	D	IDS Strategy–Income/IDS	6.8	9.4	7.7	269	11	5.00b	*1.67*
C	B	InterCapital Income Securities/closed-end	8.2	10.1	10.5	213	2	NA	0.75
		Intermediate Bond Fund of Amer/American Funds	—*	9.2	8.9	332	146	4.75	*1.00*
		ITB–Premium Income/TNE	—*	9.5	7.9	144	474	2.50	*1.25p*
		ISI Total Return US Treas[1]/ISI	—*	7.8	8.5	373	16	4.45	*0.88*
C	B	Kemper Inc & Cap Preservation/Kemper	7.8	9.8	9.7	414	0	4.50	0.80
		Kemper Intermediate Govt/closed-end	—*	10.5	10.2	290	1	NA	0.95
D	D	Kemper Invest–Diversified Inc/Kemper	4.2	8.2	13.1	234	–16	3.00b	*2.28*
C	D	Kemper Invest–Government/Kemper	6.5	9.3	9.0	4,837	–7	3.00b	*2.01*
		Kemper Multi-Market Income/closed-end	—*	13.2	13.9	191	–3	NA	1.00
		Kemper Retirement Fund I/Kemper	—*	12.0	2.4	109	41	†	1.09
B	C	Kemper US Government Secs/Kemper	8.4	11.7	9.4	4,949	8	4.50	0.53
C	D	Keystone Custodian B-1/Keystone	6.1	8.4	7.7	433	–5	4.00b	*2.06*
D	D	Keystone Custodian B-2/Keystone	4.6	4.4	11.3	791	–14	4.00b	*1.95*
		Legg Mason Inc–US Govt Intermed/Legg Mason	—*	9.6	7.0	130	141	none	*0.80p*
A	D	Lexington GNMA Income Fund/Lexington	8.9	10.0	8.3	103	6	none	1.04
		Liberty Advantage US Govt Secs/Liberty	—*	11.4	9.0	437	44	4.50	0.90p
A	D	Lord Abbett US Govt Secs/Lord Abbett	8.5	10.3	10.2	1,853	34	4.75	*0.89*
B	C	Lutheran Brotherhood Income/Lutheran	8.6	10.0	8.9	751	2	5.00	1.02
C	C	MainStay–Government Plus/NYLife	7.4	9.1	9.6	582	23	5.00b	*1.79*
B	C	Mass Financial Bond Fund/Mass Finl	7.8	9.6	8.9	315	2	7.25	*0.79*
F	A+	MassMutual Corporate Investors/closed-end	8.6	10.3	9.2	124	0	NA	1.50
B	C	Merrill Lynch Corp–High Qual#/ML Funds	8.0	9.6	8.3	491	0	4.00	0.62
C	B	Merrill Lynch Federal Securities/ML Funds	8.8	11.2	8.6	2,214	–9	4.00	*0.78*
D	B	Merrill Lynch Retire/Income/ML Funds	8.0	10.3	8.0	1,606	–2	4.00b	*1.41*
		MetLife-State Street Govt Income/MetLife	—*	9.9	8.0	801	–19	none	*1.05*
		MFS Charter Income/closed-end	—*	13.7	11.7	889	–5	NA	1.08p
B	D	MFS Government Income Plus/Mass Finl	5.8	6.8	6.8	935	–23	4.75	*1.40*
		MFS Government Markets Income/closed-end	—*	7.0	8.4	773	–6	NA	1.05p
		MFS Govt Premium Account/Mass Finl	—*	7.5	6.0	410	4	3.75	*1.40*
D	C	MFS Government Securities/Mass Finl	7.2	8.8	8.4	323	–1	4.75	*1.28*
		MFS Intermediate Income/closed-end	—*	8.6	7.9	1,616	–6	NA	1.02
		MFS Lifetime Govt Income +/Mass Finl	—*	7.6	6.2	2,913	–15	6.00b	*2.92p*
		MFS Lifetime Intermediate Inc/Mass Finl	—*	7.8	6.5	150	56	6.00b	*2.33*

*Fund not in operation for full period. †Closed to new investors. #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Assets include sister fund Flag Investors Total Return. Formerly CJ Lawrence Total Return US Treasury.

Distributor table, page 294. Rules, page 210.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 6/86 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	8.3%	10.4%	8.6%				
		Forbes taxable bond fund composite	7.8%	9.9%	9.1%				$1.05
		MFS Multimarket Income Trust/closed-end	—*	12.0%	9.5%	$946	-5%	NA	$1.13p
		MFS Multimarket Total Return/closed-end	—*	13.3	10.7	134	0	NA	1.45
D	A	Montgomery Street Income Secs/closed-end	8.7%	12.2	9.7	149	4	NA	0.68
A	F	National Federal Securities/National Secs	5.3	8.9	8.9	356	-17	4.75%	0.91
D	A	N & B Limited Maturity/N & B	7.7	8.9	7.4	143	22	none	0.65p
		New America High Income Fund/closed-end	—*	-10.1	16.3	170	-26	NA	1.72
A	F	New England Government Secs/TNE	5.6	5.3	8.4	168	-6	4.50	*1.21*
F	A	Northeast Investors Trust/Northeast Inv	4.4	5.1	16.4	275	-8	none	0.92
		Oppenheimer Multi-Sector Income/closed-end	—*	10.4	10.3	290	-1	NA	1.08
		Oppenheimer Strategic Income/Oppenheimer	—*	10.8	12.3	385	196	4.75	*1.40*
D	B	Oppenheimer US Government/Oppenheimer	7.5	9.6	9.1	342	29	4.75	*1.30*
C	B	Pacific American Income Shares/closed-end	8.7	11.3	9.6	101	1	NA	0.90
B	C	PaineWebber Fixed Inc–Inv Gr[1]/PaineWebber	7.6	10.8	8.2	218	-10	4.00	*0.91*
B	C	PaineWebber Fixed Inc–US Govt[1 2]/PaineWebber	8.2	10.4	7.5	753	-11	4.00	*0.91*
B	D	PaineWebber Income Fund/PaineWebber	6.5	11.5	7.7	147	-15	5.00b	*1.99*
		Parkstone Bond/Winsbury	—*	8.8	7.7	432	37	4.50	0.86p
		Parkstone Intermed Govt Oblig/Winsbury	—*	9.3	7.5	143	43	4.50	0.91p
		Permanent Port–Treasury Bill/Permanent	—*	6.3	0.7	279	125	none	*0.83p*
D	B	Pilgrim GNMA Fund/Pilgrim	7.7	9.1	9.1	111	-9	4.75	*1.19*
		Pilgrim Prime Rate Trust[3]/closed-end	—*	9.2	9.1	1,054	-7	NA	1.38
F	C	Pilgrim S-T Multi-Market Inc/Pilgrim	-5.0	7.5	11.0	172	467	3.50	*1.65*
C	B	T Rowe Price GNMA Fund/Price	8.4	11.2	8.6	528	31	none	0.85
C	C	T Rowe Price New Income Fund/Price	7.8	10.3	8.1	1,149	14	none	0.88
F	A+	T Rowe Price Short-Term Bond/Price	7.1	8.2	7.5	217	4	none	0.93
C	C	Prudential GNMA Fund#/Prudential	7.1	8.6	8.9	243	10	4.50	*1.15*
B	D	Prudential Government Plus#/Prudential	7.0	8.8	7.7	2,942	-18	4.50	*0.79*
D	B	Prudential Govt Secs–Intermed/Prudential	6.9	8.8	8.8	290	-15	none	*0.88*
		Prudential Intermediate Income/closed-end	—*	7.4	9.9	425	-2	NA	1.04
		Prudential Strategic Income#/Prudential	—*	3.9	11.2	292	-44	4.50	*1.39*
		Prudential Structured Mat#/Prudential	—*	10.3	8.3	113	5	3.25	*0.22p*
		Prudential US Government#/Prudential	—*	5.6	7.5	161	-10	4.50	*1.14*
		Putnam Diversified Income Trust/Putnam	—*	12.4	9.6	153	21	4.75	*1.59*
B	D	Putnam Federal Income/Putnam	6.9	9.3	8.3	738	-15	4.75	*1.14*
A	D	Putnam High Income Government/Putnam	6.7	10.0	7.9	5,172	-23	6.75	*0.95*
B	C	Putnam Income Fund/Putnam	8.2	10.7	10.0	471	9	4.75	*1.05*
		Putnam Intermediate Govt Inc/closed-end	—*	10.2	8.6	559	0	NA	1.02
		Putnam Master Intermediate Inc/closed-end	—*	11.2	10.0	307	-3	NA	1.04
D	A	Putnam US Govt Income[4]/Putnam	9.1	10.5	9.6	2,063	35	4.75	*1.07*
		RAC Income Fund/closed-end	—*	12.8	11.3	114	2	NA	1.23

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Distributor table, page 294. Rules, page 210.

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Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 6/86 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expense per $10
		Merrill Lynch corporate/govt bond index	8.3%	10.4%	8.6%				
		Forbes taxable bond fund composite	7.8%	9.9%	9.1%				$1.05
		Salem Funds–Fixed Income[1]/Federated	—*	12.5%	6.9%	$170	NM	4.00%	*$0.84p*
C	B	Scudder GNMA Fund/Scudder	8.6%	11.2	8.3	276	10%	none	1.04
B	C	Scudder Income Fund/Scudder	8.3	10.3	8.2	326	18	none	1.03
C	B	Scudder Short Term Bond Fund/Scudder	8.7	12.6	9.2	733	289	none	0.41p
		Shearson Income–Divers Strategic/Shearson	—*	11.0	10.2	435	167	5.00b	*0.85p*
		Shearson Income–Mortgage/Shearson	—*	10.8	8.2	541	-16	5.00b	*1.62*
B	D	Shearson Invest–Govt Secs/Shearson	6.1	8.2	8.1	1,329	-21	5.00b	*1.48*
A+	F	Shearson Invest–Inv Grade Bond/Shearson	6.9	9.0	8.2	390	-12	5.00b	*1.57*
C	B	Shearson Managed Governments/Shearson	7.7	8.9	9.1	470	-9	5.00	0.83
A	C	Smith Barney–US Government/Smith Barney	9.5	11.3	8.9	353	5	4.00	0.42
		Spartan Government Income[2]/Fidelity	—*	10.6	8.2	430	30	none	0.53p
		Spartan Limited Maturity Govt/Fidelity	—*	10.3	8.5	680	408	none	0.58p
B	D	SteinRoe Intermediate Bond/Stein Roe	7.4	10.7	8.3	184	14	none	0.73
		Strong Advantage Fund/Strong	—*	7.9	8.0	111	-20	none	1.20
F	A+	SunAmerica Equity–US Govt Secs[3]/SunAmerica	7.4	9.5	9.2	512	21	5.00b	*2.00p*
D	B	Thomson Fund–Income#/Thomson	5.9	4.3	10.4	292	-26	4.75	*1.07*
C	D	Thomson Fund–US Government#/Thomson	6.9	9.3	8.9	427	-11	4.75	*0.95*
C	C	Transamerica Govt Securities/Transamerica	7.1	10.1	10.7	734	-13	4.75	*1.11*
A	C	Transamerica Income Shares/closed-end	10.2	12.9	9.3	122	3	NA	0.69
		Transamerica Special Govt Inc/Transamerica	—*	8.6	9.4	103	83	6.00b	*2.00p*
D	A	20th Century US Governments/20th Century	7.0	8.9	7.5	478	10	none	1.00
		Tyler Cabot Mortgage Securities[4]/closed-end	—*	12.4	11.3	331	1	NA	1.11
C	C	United Bond Fund/Waddell	7.5	7.7	8.4	457	8	8.50	0.66
B	D	United Government Securities/Waddell	6.3	8.7	8.1	120	15	4.25	0.80
C	B	US Government Secs/American Funds	8.0	9.9	9.4	928	54	4.75	*0.87*
A	C	USAA Mutual–Income Fund/USAA	9.8	11.4	8.8	656	57	none	0.46
C	A	Value Line US Government Secs/Value Line	8.8	11.0	8.4	311	21	none	0.66
		Van Kampen Merrit Intermed Hi Inc/closed-end	—*	1.7	16.3	137	-22	NA	2.10
		Van Kampen Merritt Ltd High Inc/closed-end	—*	2.1	14.8	106	-17	NA	2.12
		Van Kampen Merritt Prime Rate[5]/closed-end	—*	9.5	9.4	1,020	64	NA	1.58
A	C	Van Kampen Merritt US Govt/Van Kampen	8.9	11.0	9.3	3,290	-2	4.90	0.64
		Vanguard Bond Market Fund/Vanguard	—*	10.6	8.3	559	228	none[6]	0.21
A	C	Vanguard Fixed Income–GNMA/Vanguard	9.6	11.6	8.7	3,564	54	none	0.34
A+	D	Vanguard Fixed Income–Inv Gr/Vanguard	8.7	9.9	8.9	1,458	35	none	0.37
D	A+	Vanguard Fixed Income–S-T/Vanguard	8.3	10.5	8.2	1,143	71	none	0.31
		Vanguard Fixed Inc–S-T Govt/Vanguard	—*	10.0	7.8	663	155	none	0.30
A+	F	Vanguard Fixed Inc–US Treas/Vanguard	7.1	8.7	8.2	702	33	none	0.30
C	B	WPG Government Securities Fund/Weiss	8.3	10.0	7.9	152	44	none	0.76
		Zenix Income Fund/closed-end	—*	5.6	15.5	145	8	NA	2.47

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Distributor table, page 294. Rules, page 210.

THERE WHEN IT COUNTS.

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138 years of meeting our obligations to our insureds, our employees, our distributors and shareholders.

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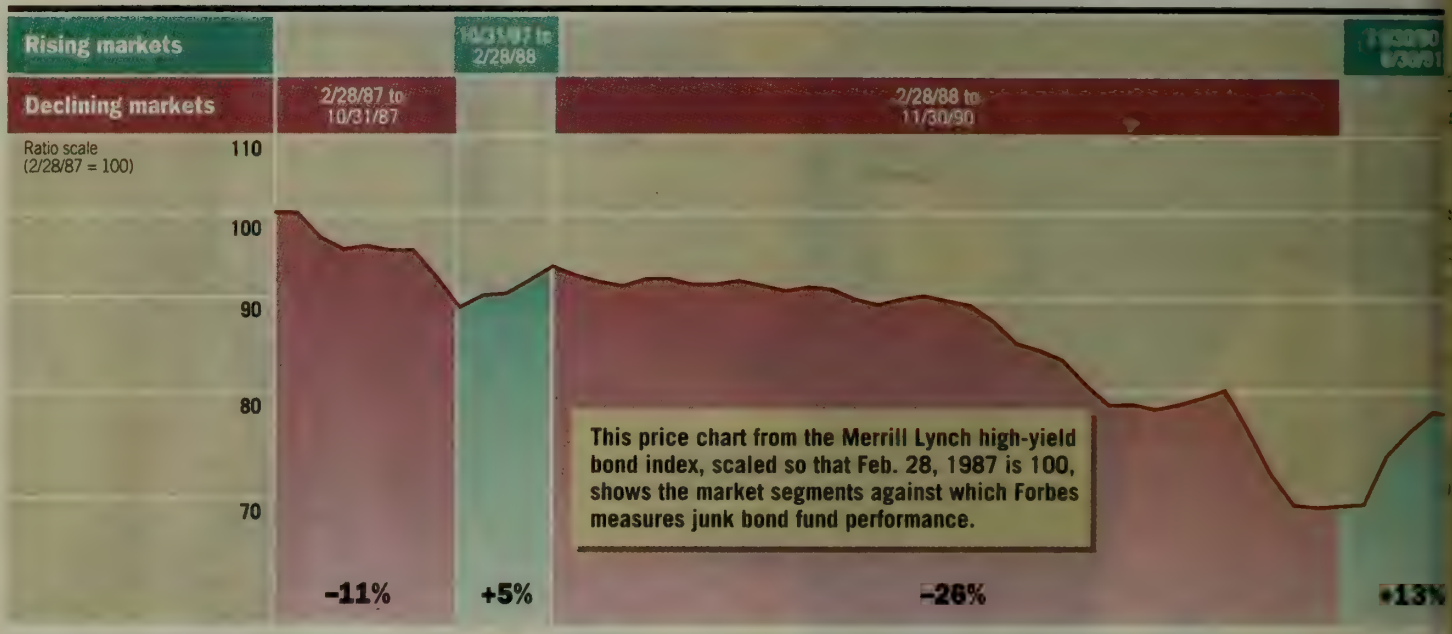
Junk bond funds invest in non-investment-grade corporate bonds (those rated BB+ or lower by Standard & Poor's and Ba1 or lower by Moody's). Since junk bonds perform more like stocks (their market value is more sensitive to corporate cash flow and future prospects than to movements in interest rates), we rate these bond funds with a system that is similar to the one we use for stock funds. The only difference is that we analyze junk bond funds over two instead of three market cycles. Our benchmark for junk bond performance is the Merrill Lynch high yield index, which represents a portfolio of the entire junk bond universe. Over the last 12 months the total return on this index was 13%, whereas the average junk fund in our survey had a total return of only 9.7 There are several explanations for this performance c crepancy: A number of these funds include some nonju investments in their portfolios, such as cash. Moreov some portfolios were too heavily weighted with bonds t went into default. Others may have missed out on some the recent junk rally by the way they adjusted th portfolios. Some managers responded to the 1989 crash in the junk market by shifting into the better gra of junk. That ceased to be a good strategy last fall, wh the market snapped back—with the biggest gains comi in the worst grades of bonds. A fund must have $1 million in assets to appear in the following table.



This price chart from the Merrill Lynch high-yield bond index, scaled so that Feb. 28, 1987 is 100, shows the market segments against which Forbes measures junk bond fund performance.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 2/87 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annus expens per $1
		Merrill Lynch high yield index	7.5%	13.0%	12.8%				
		Forbes junk bond fund composite	3.6%	9.7%	13.9%				$1.22
C	D	Alliance Bond–High Yield/Alliance	-2.1%	11.1%	11.5%	$100	-22%	4.75%	*$1.60*
C	D	American Capital High Yld Inv/American Cap	0.0	4.4	15.2	319	-15	4.75	*1.03*
		American High-Income Trust/American Funds	—*	13.8	11.6	213	48	4.75	*1.00*
		Cigna High Income Shares/closed-end	—*	8.8	15.8	165	-8	NA	1.59
B	A	Cigna High Yield Fund/Cigna	6.4	11.4	12.3	243	-3	5.00	*1.25*
B	B	Colonial High Yield Securities/Colonial	4.5	7.5	14.1	279	-14	4.75	*1.33*

*Fund not in operation for full period. †Closed to new investors. §Distributor may impose redemption fee, which proceeds revert to the fund. *Expense ratio is italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributo p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 294. Rules, page 210.

Performance UP markets	DOWN markets	Fund/distributor	Total return: Annual average 2/87 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Merrill Lynch high yield index	7.5%	13.0%	12.8%				
		Forbes junk bond fund composite	3.6%	9.7%	13.9%				$1.22
B	F	Dean Witter High Yield Secs/Dean Witter	-5.6%	-5.0%	18.4%	$419	-46%	5.50%	$0.92
A	B	Delaware Group Delchester H-Y-I/Delaware	6.1	13.5	13.5	494	-6	6.75	0.90
		Delaware Group Delchester H-Y-II/Delaware	—*	13.1	13.2	109	18	4.75	*1.15*
A	C	Federated High Yield Trust/Federated	6.0	15.1	14.8	133	3	none	0.78p
D	B	Fidelity Capital & Income[1]/Fidelity	4.0	12.6	10.2	978	-18	none§	0.81
D	D	First Investors Fund for Income/First Inv	0.0	2.0	14.4	420	-57	†	*1.27*
F	D	First Investors High Yield Fund/First Inv	-0.7	-0.2	13.0	215	-67	†	*1.48*
A	D	Franklin AGE High Income Fund/Franklin	3.8	11.6	15.4	1,628	-5	4.00	0.59
		High Income Advantage Trust/closed-end	—*	4.4	14.1	156	-14	NA	1.22
		High Income Advantage Trust II/closed-end	—*	1.8	14.3	203	-17	NA	1.09
C	C	IDS Extra Income Fund/IDS	3.3	12.5	11.4	946	-4	5.00	0.87
A	C	Kemper Diversified Income Fund/Kemper	4.6	11.6	13.9	211	-12	4.50	1.15
		Kemper High Income Trust/closed-end	—*	12.8	14.5	163	-2	NA	2.35
A	B	Kemper High Yield Fund/Kemper	6.7	11.6	14.7	1,571	8	4.50	0.88
B	C	Kemper Invest-High Yield/Kemper	4.2	9.5	14.1	734	4	3.00b	*2.13*
D	D	Keystone Custodian B-4/Keystone	-2.1	-3.5	18.2	661	-18	4.00b	*2.22*
A	B	Liberty High Income Bond[2]/Federated	6.7	18.3	12.9	272	-6	4.50	1.03
C	A	Lord Abbett Bond-Debenture/Lord Abbett	5.7	9.3	12.2	547	-8	4.75	*0.88*
		Lutheran Brotherhood High Yield/Lutheran	—*	13.2	11.1	167	7	5.00	1.23
D	B	MainStay-High Yield Corp Bond/NYLife	3.6	8.7	14.9	239	18	5.00b	*2.00*
B	C	Mass Financial High Inc-Series I/Mass Finl	3.1	13.0	14.5	462	-14	4.75	*1.05*
B	A	Merrill Lynch Corp-High Inc#/ML Funds	8.1	13.4	13.9	720	2	4.00	0.69
B	C	MetLife-State Street High Income/MetLife	4.6	4.7	12.9	213	18	4.50	*1.20*
A	D	MFS Lifetime High Income Trust/Mass Finl	3.2	15.3	13.8	164	30	6.00b	*2.60*
C	D	National Bond Fund/National Secs	0.1	15.2	16.4	357	-5	4.75	1.15
D	A	Oppenheimer High Yield Fund/Oppenheimer	7.0	11.8	14.7	657	1	6.75	0.96
B	C	PaineWebber Fixed Inc-Hi Inc[3]/PaineWebber	3.8	17.1	13.4	222	-10	4.00	*1.10*
D	B	T Rowe Price High Yield Fund/Price	4.3	7.3	13.0	803	16	none	1.03
C	C	Prudential High Yield Fund#/Prudential	3.9	12.7	14.4	2,043	-2	4.50	*0.93*
C	A	Putnam High Yield Trust/Putnam	5.6	14.6	14.5	1,736	0	6.75	*1.13*
B	B	Putnam High Yield Trust II/Putnam	6.0	16.1	13.9	324	2	6.75	*1.44*
D	B	Shearson High Yield/Shearson	2.7	4.4	14.2	196	-30	5.00	1.04
C	C	Shearson Income-High Income/Shearson	3.3	6.6	13.3	227	-29	5.00b	*1.90*
D	D	United High Income Fund/Waddell	0.1	5.6	14.2	783	-11	‖	0.82
D	A	United High Income Fund II/Waddell	4.0	11.5	12.5	273	-2	8.50	0.92
C	C	Van Kampen Merritt High Yield/Van Kampen	3.0	8.2	14.5	199	-10	4.90	*1.41*
C	A	Vanguard Fixed Income-High Yld/Vanguard	4.9	7.4	12.7	1,041	15	none	0.40

*Fund not in operation for full period. †Closed to new investors. §Distributor may impose redemption fee, which proceeds revert to the fund. #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Fidelity High Income Fund. [2]Formerly Federated High Income Securities. [3]Formerly PaineWebber Fixed Income-High Yield. As of 7/1/91 two classes of shares available, one with front-end load, the other with exit fee and 12b-1.

Distributor table, page 294. Rules, page 210.

Municipal bond funds

This table covers tax-exempt bond funds with at least $100 million in assets and a year of performance. Grades are awarded for the period June 30, 1986 to June 30, 1991. Each month is pegged as bearish or bullish, according to the performance of the Shearson Lehman municipal bond index. For each fund a composite bull-market performance is calculated, and the funds are graded on a curve. Ditto for our down-market calculation. Adjustment i made to compensate funds from California and New Yor for their handicap in buying only local bonds. Because o their limited number, the performance of other one-stat funds cannot be adjusted. In general, a short-term fun can be expected to get an A or B in down markets and a I or F in up markets. The reverse is true for long-term funds

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return: Annual average 6/86 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Shearson Lehman municipal bond index	7.2%	9.0%	7.3%				
		Forbes municipal bond fund composite	7.6%	8.2%	6.8%				$0.76
		AAL Municipal Bond Fund/AAL	—*	8.2%	6.1%	$121	42%	4.75%	*$1.10p*
A	D	AARP Insured T-F Inc–Genl Bond/Scudder	8.1%	8.2	6.0	967	33	none	0.60
F	A	AARP Insured T-F Inc–Short-Term/Scudder	5.3	6.5	6.0	113	21	none	1.12
		Alliance Muni Income–Calif/Alliance	—*	8.3	6.9	198	47	4.50	*0.28p*
		Alliance Muni Income–Ins Natl/Alliance	—*	8.9	6.4	125	8	4.50	*0.93p*
		Alliance Muni Income–Natl/Alliance	—*	9.2	6.9	200	10	4.50	*0.64p*
		Alliance Muni Income–New York/Alliance	—*	8.4	6.9	128	12	4.50	*0.54p*
		Allstate Municipal Income/closed-end	—*	8.0	6.7	339	2	NA	0.75
		Allstate Municipal Income II/closed-end	—*	8.8	6.4	286	1	NA	0.87
		Allstate Municipal Inc Oppor/closed-end	—*	7.3	7.9	202	1	NA	1.12

*Fund not in operation for full period. †Closed to new investors. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 294. Rules, page 210.

Performance UP markets	DOWN markets	Fund/distributor	Total return: Annual average 6/86 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Shearson Lehman municipal bond index	7.2%	9.0%	7.3%				
		Forbes municipal bond fund composite	7.6%	8.2%	6.8%				$0.76
		Allstate Municipal Inc Oppor II/closed-end	—*	8.1%	7.6%	$194	1%	NA	$1.06
		Allstate Municipal Inc Oppor III/closed-end	—*	9.7	6.3	109	2	NA	1.12
		Allstate Municipal Premium Inc/closed-end	—*	10.1	6.7	372	1	NA	1.57
B	F	American Capital Muni Bond/American Cap	6.4%	7.6	6.9	253	3	4.75%	*0.86*
D	A	American Capital T-E Hi Yld/American Cap	5.9	7.1	7.9	216	-4	4.75	*1.04*
D	A	Benham Calif Tax-Free–Intermed/Benham	6.3	7.9	5.8	225	19	none	0.58
B	D	Benham Calif Tax-Free–L-T/Benham	7.1	8.4	6.4	226	12	none	0.57
		Bernstein Diversified Muni/Bernstein	—*	8.0	5.8	193	16	none	0.72
		Bernstein New York Muni/Bernstein	—*	8.4	5.8	179	23	none	0.71
D	B	California Tax-Exempt Bonds/National Secs	8.1	8.6	6.7	128	16	4.75	0.63
D	A	California Tax-Free Income/California Inv	8.2	7.5	6.5	119	38	none	0.60p
F	A+	Calvert Tax-Free Reserves–Limited/Calvert	6.1	6.4	6.1	220	58	2.00	0.78
A+	F	Cigna Municipal Bond Fund/Cigna	7.9	8.1	6.8	261	1	5.00	*0.93*
D	C	Colonial California Tax-Exempt/Colonial	7.0	7.9	6.9	267	29	4.75	*0.80p*
		Colonial High Income Municipal/closed-end	—*	5.8	9.0	271	-3	NA	0.96
		Colonial Investment Grade Muni/closed-end	—*	8.3	8.3	125	0	NA	0.45p
		Colonial Mass Tax-Exempt/Colonial	—*	9.0	7.2	111	85	4.75	0.40p
		Colonial Municipal Income Trust/closed-end	—*	6.4	8.9	219	-2	NA	0.86
D	B	Colonial Tax-Exempt Fund/Colonial	7.5	8.4	7.5	2,238	30	4.75	*1.05*
C	C	Colonial Tax-Exempt Insured/Colonial	7.2	8.3	6.5	166	26	4.75	*1.10*
B	C	Columbia Municipal Bond Fund/Columbia	8.1	8.8	6.3	238	24	none	0.58
D	B	Composite Tax-Exempt Bond/Murphey	7.1	7.8	6.4	123	16	4.00	*0.77*
A	D	Dean Witter Calif Tax-Free Inc/Dean Witter	7.7	7.2	5.9	745	19	5.00b	*1.30*
B	D	Dean Witter NY Tax-Free Income/Dean Witter	7.2	7.7	6.0	166	8	5.00b	*1.37*
A	C	Dean Witter Tax-Ex Secs/Dean Witter	8.4	8.7	7.1	1,057	3	4.00	0.51
C	B	Delaware Group Tax-Free–USA/Delaware	8.2	7.4	6.9	655	7	4.75	0.74
C	B	DMC Tax-Free Income Trust–PA/Delaware	7.9	8.1	6.9	694	9	4.75	0.72
D	B	Dreyfus California Tax-Ex Bond/Dreyfus	6.9	7.2	6.8	1,618	7	none	0.68
D	C	Dreyfus Insured Muni Bond/Dreyfus	6.8	7.8	6.4	223	13	none	*0.96*
D	A	Dreyfus Intermediate Muni Bond/Dreyfus	7.4	8.3	6.8	1,222	9	none	0.66
D	C	Dreyfus Massachusetts T-E Bond/Dreyfus	6.6	7.6	6.7	123	12	none	0.81
		Dreyfus Municipal Income/closed-end	—*	9.5	7.1	184	3	NA	0.86
		Dreyfus NJ Municipal Bond/Dreyfus	—*	9.1	6.5	427	41	none	*0.77p*
		Dreyfus NY Insured T-E Bond/Dreyfus	—*	8.7	6.3	120	42	none	*0.50p*
D	B	Dreyfus NY Tax-Exempt Bond/Dreyfus	7.0	8.0	7.0	1,714	1	none	0.70
		Dreyfus NY T-E Intermed Bond/Dreyfus	—*	7.9	6.4	112	17	none	*0.42p*
		Dreyfus Strategic Municipal Bond/closed-end	—*	8.9	7.5	400	4	NA	0.56p

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		Shearson Lehman municipal bond index	7.2%	9.0%	7.3%				
		Forbes municipal bond fund composite	7.6%	8.2%	6.8%				$0.76
		Dreyfus Strategic Municipals/closed-end	—*	8.3%	7.8%	$499	3%	NA	$0.88
C	B	Dreyfus Tax-Exempt Bond Fund/Dreyfus	7.9%	8.5	7.0	3,819	1	none	0.67
		Dupree–Kentucky T-F Income/Dupree	—*	8.4	6.6	114	30	none	0.75
C	D	Eaton Vance California Munis[1]/Eaton Vance	6.3	6.2	6.7	328	18	6.00b%	*1.95*
D	C	Eaton Vance National Munis/Eaton Vance	5.8	6.3	7.6	1,117	5	6.00b	*1.89*
D	B	Federated Intermediate Municipal/Federated	6.5	8.1	6.2	120	25	none	0.49
C	B	Federated Tax-Free Income Fund/Federated	8.1	8.5	6.6	532	5	4.50	0.83
		Fidelity Calif Tax-Free Insured/Fidelity	—*	7.7	6.2	118	28	none	0.72
C	C	Fidelity Calif Tax-Free High Yield/Fidelity	7.3	7.9	6.6	515	–1	none	0.58
C	B	Fidelity Mass Tax-Free High Yield/Fidelity	7.9	9.8	7.0	801	12	none	0.55
B	C	Fidelity Mich Tax-Free High Yield/Fidelity	7.7	7.5	6.9	318	20	none	0.64
C	B	Fidelity Minn Tax-Free/Fidelity	8.4	8.6	6.6	189	25	none	0.76
C	B	Fidelity NY Tax-Free High Yield/Fidelity	7.5	7.8	6.7	380	–3	none	0.59
C	C	Fidelity NY Tax-Free Insured/Fidelity	7.2	8.4	6.3	253	17	none	0.64
C	D	Fidelity Ohio Tax-Free High Yield/Fidelity	6.7	9.2	6.6	271	24	none	0.66
D	A	Fidelity Tax-Free–Aggressive/Fidelity	8.8	8.8	7.8	584	7	none§	0.66
B	C	Fidelity Tax-Free–High Yield/Fidelity	8.5	10.8	6.8	1,848	8	none	0.57
B	D	Fidelity Tax-Free–Insured/Fidelity	7.5	8.5	6.3	243	31	none	0.67
D	B	Fidelity Tax-Free–Ltd Term Munis/Fidelity	7.2	9.3	6.6	524	22	none	0.67
B	C	Fidelity Tax-Free–Municipal Bond/Fidelity	8.1	8.2	6.5	1,080	4	none	0.50
A+	F	Financial Tax-Free Income Shs/Invesco	8.6	8.5	6.4	208	16	none	*0.93*
D	A	First Investors Insured Tax-Ex/First Inv	7.6	7.9	7.0	1,145	3	6.90	*1.21*
D	B	First Investors NY Insured T-F/First Inv	6.9	8.2	6.4	154	–1	6.90	*1.23*
		Flagship Tax-Ex–Conn Double/Flagship	—*	7.4	6.5	104	37	4.20	*0.62*
		Flagship Tax-Ex–Fla Double/Flagship	—*	8.8	6.5	144	NM	4.20	*0.40p*
		Flagship Tax-Ex–Kentucky Triple/Flagship	—*	9.0	6.6	145	28	4.20	*0.60*
A	D	Flagship Tax-Ex–Michigan Triple/Flagship	8.3	8.0	6.6	138	30	4.20	*0.86*
A	F	Flagship Tax-Ex–NC Triple/Flagship	7.7	8.2	6.3	109	13	4.20	*0.94*
A	D	Flagship Tax-Ex–Ohio Double/Flagship	8.2	8.3	6.5	270	15	4.20	*0.94*
		Fortress Municipal Income/Federated	—*	8.9	7.0	125	42	1.75b	*1.02p*
		Franklin Arizona Tax-Free Income/Franklin	—*	7.7	7.2	487	78	4.00	0.59
B	D	Franklin Calif Insured T-F Income/Franklin	7.1	7.7	6.6	472	54	4.00	0.57
D	A	Franklin Calif Tax-Free Income/Franklin	7.8	7.2	7.2	11,775	8	4.00	0.48
B	C	Franklin Federal Tax-Free Income/Franklin	8.3	8.3	7.5	4,449	11	4.00	0.50
		Franklin Florida Tax-Free Income/Franklin	—*	8.1	7.3	705	66	4.00	0.57
D	A	Franklin High Yield Tax-Free Income/Franklin	8.4	6.9	8.1	1,819	10	4.00	0.52
B	D	Franklin Insured Tax-Free Income/Franklin	8.0	8.9	6.8	913	20	4.00	0.53

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		Shearson Lehman municipal bond index	7.2%	9.0%	7.3%				
		Forbes municipal bond fund composite	7.6%	8.2%	6.8%				$0.76
C	D	Franklin Mass Insured T-F Income/Franklin	7.1%	8.2%	6.7%	$174	31%	4.00%	$0.70
B	C	Franklin Mich Insured T-F Income/Franklin	7.8	7.9	6.6	561	23	4.00	0.61
B	C	Franklin Minn Insured T-F Income/Franklin	7.7	7.4	6.9	306	21	4.00	0.67
		Franklin NJ Tax-Free Income/Franklin	—*	9.3	6.9	292	100	4.00	0.65
C	B	Franklin NY Tax-Free Income/Franklin	8.0	7.8	7.3	3,127	5	4.00	0.50
B	C	Franklin Ohio Insured T-F Income/Franklin	7.8	8.2	6.8	314	34	4.00	0.65
		Franklin Oregon Tax-Free Income/Franklin	—*	8.4	6.6	150	67	4.00	0.70
		Franklin Penn Tax-Free Income/Franklin	—*	7.1	7.4	336	53	4.00	0.62
C	C	Franklin PR Tax-Free Income/Franklin	7.4	8.0	6.6	106	25	4.00	0.70
		Franklin Virginia Tax-Free Income/Franklin	—*	8.1	7.1	106	109	4.00	0.72
		Freedom Inv–Managed Tax-Ex/Freedom	—*	8.4	6.6	178	35	3.00b	*0.99p*
		General Calif Municipal Bond/Dreyfus	—*	7.0	7.2	212	173	none	*0.20p*
A	D	General Municipal Bond/Dreyfus	8.0	9.9	7.6	418	125	none	*0.00p*
D	A	General NY Municipal Bond/Dreyfus	6.7	8.7	7.1	151	74	none	*0.26p*
		GW Sierra–Calif Muni Income/Gt Western	—*	7.4	6.5	203	118	4.50	*1.08p*
B	C	John Hancock Tax-Exempt Income/Hancock	8.1	8.2	6.4	396	4	4.50	*1.23*
D	A	Hawaiian Tax-Free Trust/Aquila	7.6	7.8	6.6	413	18	4.00	0.71
		IDS California Tax-Exempt Fund/IDS	—*	7.8	6.5	185	30	5.00	0.61
C	D	IDS High Yield Tax-Exempt Fund/IDS	8.2	8.1	7.4	4,967	8	5.00	0.60
		IDS Insured Tax-Exempt Fund/IDS	—*	8.3	6.3	195	46	5.00	0.68
		IDS Minnesota Tax-Exempt Fund/IDS	—*	8.2	6.6	233	29	5.00	0.63
A	D	IDS Tax-Exempt Bond Fund/IDS	7.7	6.7	6.5	1,144	8	5.00	0.61
B	B	Kemper California Tax-Free Inc/Kemper	8.6	8.4	6.5	914	27	4.50	0.64
A	C	Kemper Municipal Bond Fund/Kemper	8.8	9.1	6.8	2,311	11	4.50	0.48
		Kemper Municipal Income Trust/closed-end	—*	11.5	7.5	421	4	NA	0.73
B	C	Kemper New York Tax-Free Fund/Kemper	7.1	9.1	6.8	216	30	4.50	0.72
		Kemper Strategic Muni Income/closed-end	—*	9.2	6.7	117	2	NA	0.76
		Keystone America Tax-Free Inc/Keystone	—*	7.5	6.1	138	–10	2.00	*1.66*
B	D	Keystone Tax-Exempt Trust/Keystone	7.3	7.3	6.0	597	0	4.00b	*1.93*
C	B	Keystone Tax-Free Fund/Keystone	7.7	7.6	6.8	1,068	23	†	*1.18*
D	A+	Limited Term Municipal–Natl/Thornburg	7.1	7.6	6.6	310	44	3.50	*1.05*
B	C	Lord Abbett Calif Tax-Free Inc/Lord Abbett	8.3	9.1	6.5	123	15	4.75	*0.61p*
B	C	Lord Abbett Tax-Free Inc–Natl/Lord Abbett	8.9	8.8	6.6	358	11	4.75	*0.79*
B	B	Lord Abbett Tax-Free Inc–NY/Lord Abbett	8.6	8.7	6.8	209	15	4.75	*0.78*
C	D	Lutheran Brotherhood Muni Bond/Lutheran	8.3	8.5	6.8	402	11	5.00	0.86
D	B	MainStay–Tax-Free Bond/NYLife	6.6	7.1	6.2	163	24	5.00b	*1.89*
C	C	Merrill Lynch Calif Muni Bond#/ML Funds	7.3	7.2	6.6	711	1	4.00	0.65

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		Shearson Lehman municipal bond index	7.2%	9.0%	7.3%				
		Forbes municipal bond fund composite	7.6%	8.2%	6.8%				$0.76
C	C	Merrill Lynch Muni–Hi Yield#/ML Funds	8.1%	8.0%	7.1%	$1,469	–5%	4.00%	NA
B	C	Merrill Lynch Muni–Insured#/ML Funds	8.2	8.8	6.8	2,522	4	none	NA
F	A+	Merrill Lynch Muni–Ltd Mat/ML Funds	5.7	6.5	5.8	351	0	0.75	$0.40
		Merrill Lynch Municipal Income#/ML Funds	—*	7.0	6.3	102	–16	2.00	0.92
B	C	Merrill Lynch NY Muni Bond#/ML Funds	7.2	7.7	6.7	559	–7	4.00	0.68
		MFS Lifetime Managed Muni Bond/Mass Finl	—*	6.6	5.9	391	6	6.00b	*2.05*
D	A	MFS Managed High Yield Muni Bond/Mass Finl	6.6	5.6	8.5	632	–8	†	1.05
C	B	MFS Managed M-S Tax-Ex–Md/Mass Finl	7.8	7.8	6.4	108	12	4.75	*1.17*
C	B	MFS Managed M-S Tax-Ex–Mass/Mass Finl	7.6	8.7	6.8	221	2	4.75	*1.07*
C	C	MFS Managed M-S Tax-Ex–NC/Mass Finl	7.4	7.9	6.3	263	34	4.75	*1.09*
C	B	MFS Managed M-S Tax-Ex–Va/Mass Finl	8.1	7.9	6.5	300	19	4.75	*1.11*
A	D	MFS Managed Municipal Bond/Mass Finl	8.4	8.2	6.5	1,571	13	4.75	0.60
		MFS Municipal Income Trust/closed-end	—*	3.6	8.4	320	–4	NA	1.30
		Municipal High Income Fund/closed-end	—*	7.4	8.0	169	2	NA	1.95
		MuniEnhanced Fund/closed-end	—*	9.9	7.0	468	2	NA	0.71
		MuniVest Fund/closed-end	—*	9.5	7.6	826	2	NA	0.67
A	D	Mutual of Omaha T-F Inc/Mutual of Omaha	8.6	8.6	6.4	378	6	4.75	*0.78*
B	D	Nationwide Tax-Free Fund/Nationwide	6.9	7.7	6.2	108	25	5.00b	*1.00p*
A	D	New England Tax-Exempt Income/TNE	7.3	7.3	6.2	150	4	4.50	*0.97*
D	F	New York Muni Fund/Fundamental	4.6	1.3	6.0	173	–27	none	*1.48*
		Nuveen Calif Muni Market Oppor/closed-end	—*	10.1	7.1	165	54	NA	0.82
		Nuveen Calif Muni Value/closed-end	—*	8.0	6.5	187	2	NA	0.89
		Nuveen Calif Performance Plus Muni/closed-end	—*	9.8	7.1	263	2	NA	0.78
		Nuveen Calif Tax-Free–Spec Bond/Nuveen	—*	8.2	6.5	108	37	4.75	0.69
		Nuveen Insured T-F Bond–Natl/Nuveen	—*	9.3	6.3	211	59	4.75	0.77
		Nuveen Insured T-F Bond–NY/Nuveen	—*	8.7	6.4	102	86	4.75	0.71
		Nuveen Invest Quality Muni/closed-end	—*	10.7	6.1	749	78	NA	0.74
		Nuveen Municipal Advantage Fund/closed-end	—*	10.5	7.6	884	2	NA	0.75
C	B	Nuveen Municipal Bond Fund/Nuveen	8.7	8.7	6.7	1,551	20	4.75	0.61
		Nuveen Municipal Market Oppor/closed-end	—*	11.2	7.5	933	3	NA	0.74
		Nuveen Municipal Value Fund/closed-end	—*	8.7	7.0	1,645	2	NA	0.86
		Nuveen NY Muni Market Oppor/closed-end	—*	9.1	6.7	121	53	NA	0.84
		Nuveen NY Muni Value/closed-end	—*	8.2	6.7	115	2	NA	0.96
		Nuveen NY Performance Plus Muni/closed-end	—*	9.6	7.5	147	2	NA	0.84
		Nuveen Performance Plus Muni/closed-end	—*	10.6	7.2	1,198	2	NA	0.75
		Nuveen Premium Income Muni/closed-end	—*	10.7	7.2	1,123	3	NA	0.64
		Oppenheimer Calif Tax-Exempt/Oppenheimer	—*	7.8	6.8	113	56	4.75	*0.53p*

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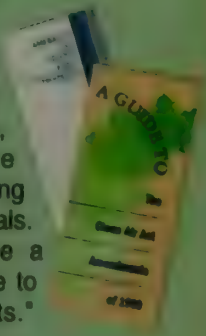

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Performance UP markets	DOWN markets	Fund/distributor	Total return: Annual average 6/86 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Shearson Lehman municipal bond index	7.2%	9.0%	7.3%				
		Forbes municipal bond fund composite	7.6%	8.2%	6.8%				$0.76
D	A	Oppenheimer New York Tax-Ex/Oppenheimer	7.1%	8.1%	6.8%	$312	28%	4.75%	$0.95
C	B	Oppenheimer Tax-Free Bond/Oppenheimer	7.7	8.0	6.9	313	31	4.75	*0.89*
		Overland Express Calif T-F Bond/Overland	—*	8.7	6.9	282	115	4.50	0.22p
D	B	Pacific Horizon–Calif T-E Bond/Concord Finl	7.0	7.8	6.4	116	11	4.50	*1.01p*
C	B	PaineWebber California T-F Inc[1]/PaineWebber	8.4	11.3	6.6	223	9	4.00	*0.93*
B	C	PaineWebber National T-F Inc[1,2]/PaineWebber	7.9	7.9	6.7	357	6	4.00	*0.73*
		Pierpont Tax-Exempt Bond/TBC	—*	8.7	5.9	169	17	none	0.79p
		Premier Calif Muni Bond/Dreyfus	—*	7.3	7.1	198	84	4.50	*0.11p*
		Premier Municipal Bond/Dreyfus	—*	9.6	7.4	269	117	4.50	*0.22p*
		Premier State Muni–Conn/Dreyfus	—*	7.5	6.8	199	84	4.50	*0.21p*
		Premier State Muni–Florida/Dreyfus	—*	9.1	7.1	190	116	4.50	*0.21p*
		Premier State Muni–Maryland/Dreyfus	—*	8.8	6.9	191	83	4.50	*0.21p*
		Premier State Muni–Michigan/Dreyfus	—*	8.4	7.0	119	69	4.50	*0.20p*
		Premier State Muni–Ohio/Dreyfus	—*	8.9	7.1	191	77	4.50	*0.21p*
		Premier State Muni–Penn/Dreyfus	—*	8.8	7.3	121	89	4.50	*0.22p*
		T Rowe Price Maryland T-F Bond/Price	—*	7.8	6.2	365	57	none	0.63
C	A	T Rowe Price Tax-Free High Yield/Price	8.7	8.7	7.1	547	16	none	0.83
C	D	T Rowe Price Tax-Free Income Fund/Price	6.4	8.1	6.5	1,156	2	none	0.62
F	A	T Rowe Price T-F Short Intermed/Price	5.7	7.0	5.6	255	16	none	0.74
C	D	Prudential Calif Muni#/Prudential	6.4	7.4	6.4	170	-5	4.50	0.86
		Prudential Muni Bond–High Yield#/Prudential	—*	7.0	7.5	738	11	4.50	*0.77*
		Prudential Muni Bond–Insured#/Prudential	—*	8.4	6.3	587	10	4.50	*0.79*
		Prudential Muni–New Jersey#/Prudential	—*	9.3	6.5	235	32	4.50	*0.79*
B	D	Prudential Muni–New York#/Prudential	6.2	7.9	6.6	288	-12	4.50	*0.77*
		Prudential Muni–Penn#/Prudential	—*	7.0	6.3	167	10	4.50	*0.87*
B	D	Prudential Natl Municipals#/Prudential	6.9	8.4	6.3	857	-10	4.50	*0.75*
C	B	Putnam Calif Tax-Exempt Income/Putnam	8.4	8.3	6.8	2,108	18	4.75	0.64
		Putnam High Yield Muni/closed-end	—*	6.1	9.1	180	-3	NA	0.90
		Putnam Investment Grade Muni/closed-end	—*	8.5	8.0	353	67	NA	1.21
		Putnam Managed Municipal Income/closed-end	—*	9.1	8.3	568	47	NA	1.29
B	C	Putnam New York Tax-Exempt Income/Putnam	8.0	7.3	7.0	1,507	9	4.75	0.56
		Putnam Ohio Tax-Exempt Income/Putnam	—*	6.9	6.1	101	-1	¶	*1.71*
A	D	Putnam Tax-Exempt Income/Putnam	8.2	6.8	6.7	1,418	6	4.75	0.54
		Putnam Tax-Free High Income/Putnam	—*	8.1	8.2	263	31	4.75	0.95
D	A	Putnam Tax-Free Income–Hi Yld/Putnam	7.0	6.5	7.4	719	12	5.00b	*1.49*
C	D	Putnam Tax-Free Income–Insured/Putnam	7.3	7.0	5.7	353	16	5.00b	*1.80*
B	A+	Rochester Fund Municipals/Rochester	8.7	9.2	7.2	367	135	4.00	*0.70*

*Fund not in operation for full period. †Closed to new investors. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* #Fund has two classes of shares. Performance figures are for class with front-end load and no or low 12b-1 plan. Assets are for entire fund. b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]As of 7/1/91 two classes of shares available, one with front-end load, the other with exit fee and 12b-1. [2]Formerly PaineWebber Tax-Exempt Income Fund.

Distributor table, page 294. Rules, page 210.

Performance UP markets	Performance DOWN markets	Fund/distributor	Total return Annual average 6/86 to 6/91	Total return Last 12 months	Yield	Assets 6/30/91 ($mil)	Assets % change 91 vs 90	Maximum sales charge	Ann expe per $
		Shearson Lehman municipal bond index	7.2%	9.0%	7.3%				
		Forbes municipal bond fund composite	7.6%	8.2%	6.8%				50.7
A	D	Safeco Municipal Bond Fund/Safeco	9.1%	8.9%	6.6%	$357	17%	none	50.[illegible]
B	C	Scudder Calif Tax-Free Fund/Scudder	7.9	8.2	6.1	216	8	none	0.8
		Scudder High Yield Tax-Free/Scudder	—*	9.3	6.8	141	17	none	1.0
A	D	Scudder Managed Muni Bonds/Scudder	8.7	9.1	6.4	736	6	none	0.6
F	A+	Scudder Medium Term Tax-Free[1]/Scudder	5.9	8.1	6.0	136	198	none	0.[illegible]
B	C	Scudder NY Tax-Free/Scudder	7.6	7.9	6.2	143	6	none	0.9
		Seligman Select Municipal/closed-end	—*	10.8	7.4	221	2	NA	0.7
A	D	Seligman Tax-Exempt–Mass/Seligman	7.9	8.9	6.5	113	–5	4.75%	0.8
A	D	Seligman Tax-Exempt–Michigan/Seligman	8.3	8.0	6.3	124	8	4.75	0.8
B	D	Seligman Tax-Exempt–Minnesota/Seligman	7.8	7.4	6.3	178	10	4.75	0.8
A+	F	Seligman Tax-Exempt–National/Seligman	8.2	7.8	6.4	135	–3	4.75	0.8
A	D	Seligman Tax-Exempt–Ohio/Seligman	8.5	8.4	6.5	149	8	4.75	0.7
C	B	Shearson Calif Municipals/Shearson	7.8	7.7	6.9	342	5	5.00	0.6
C	C	Shearson Income–Tax-Ex Income/Shearson	7.4	7.6	6.7	624	10	5.00b	1.4
B	C	Shearson Managed Municipals/Shearson	8.1	8.1	7.4	1,508	5	5.00	0.5
C	B	Shearson NY Municipals/Shearson	8.0	8.2	7.2	437	1	5.00	0.6
		Smith Barney Muni Bond–Calif/Smith Barney	—*	8.9	7.1	102	21	4.00	0.2
		Smith Barney Muni Bond–Natl/Smith Barney	—*	9.3	7.1	212	23	4.00	0.3
		Spartan California Muni High Yield/Fidelity	—*	9.0	6.8	316	109	none	0.1
		Spartan Conn Muni High Yield/Fidelity	—*	7.6	6.4	294	28	none	0.5
		Spartan Municipal Income/Fidelity	—*	9.5	7.3	442	NM	none§	0.1
		Spartan New Jersey Muni High Yield[2]/Fidelity	—*	9.1	6.4	243	24	none	0.5
		Spartan New York Muni High Yield/Fidelity	—*	8.3	7.0	183	106	none	0.3
		Spartan Penn Muni High Yield/Fidelity	—*	9.5	7.1	163	33	none	0.6
C	B	SteinRoe High Yield Municipals/Stein Roe	9.2	8.8	7.0	374	20	none	0.7
D	A	SteinRoe Intermediate Munis/Stein Roe	6.8	8.2	5.8	119	20	none	0.8
B	C	SteinRoe Managed Municipals/Stein Roe	8.6	9.0	6.4	656	12	none	0.6
C	C	Tax-Ex Bond Fund of America/American Funds	7.6	8.2	6.4	674	24	4.75	0.7
		Tax-Ex Fund of California/American Funds	—*	7.5	5.8	106	27	4.75	0.9
		Tax-Free Fund of Colorado/Aquila	—*	7.9	6.4	109	46	4.00	0.2
B	C	Tax-Free Trust of Arizona/Aquila	8.2	8.6	6.6	175	45	4.00	0.5
C	B	Tax-Free Trust of Oregon/Aquila	7.7	8.1	6.4	175	27	4.00	0.7
		Transamerica Calif Tax-Free Inc/Transamerica	—*	9.3	7.2	132	232	4.75	0.5
A+	D	United Municipal Bond Fund/Waddell	8.7	8.4	6.5	726	11	4.25	0.5
D	A	United Municipal High Income/Waddell	8.0	8.3	7.8	214	12	4.25	0.8
		USAA Tax-Exempt–Calif Bond/USAA	—*	8.7	6.6	223	69	none	0.5
B	C	USAA Tax-Exempt–High Yield/USAA	8.1	8.3	7.1	1,429	13	none	0.4
D	A	USAA Tax-Exempt–Intermediate/USAA	7.3	8.5	6.8	628	26	none	0.4
F	A+	USAA Tax-Exempt–Short-Term/USAA	5.9	6.9	6.3	480	61	none	0.5
D	A	UST Master Tax-Exempt–Interm-d/UST Secs	6.4	8.3	6.3	140	55	4.50	0.6

*Fund not in operation for full period. †Closed to new investors. §Distributor may impose redemption fee, which proceeds revert to the fund. *Expense ratio is italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distribut p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Scudder Tax-Free Target–1990. [2]Formerly Fidelity New Jers Tax-Free–High Yield.

Distributor table, page 294. Rules, page 210.

Performance UP markets	DOWN markets	Fund/distributor	Total return: Annual average 6/86 to 6/91	Total return: Last 12 months	Yield	Assets: 6/30/91 ($mil)	Assets: % change 91 vs 90	Maximum sales charge	Annual expenses per $100
		Shearson Lehman municipal bond index	7.2%	9.0%	7.3%				
		Forbes municipal bond fund composite	7.6%	8.2%	6.8%				$0.76
D	B	Value Line Tax-Exempt–Hi Yld/Value Line	7.6%	8.0%	7.1%	$281	1%	none	$0.60
B	C	Van Kampen Merritt Ins T-F/Van Kampen	7.9	9.2	6.5	752	16	4.90%	*0.87*
		Van Kampen Merritt Muni Inc/closed-end	—*	11.6	7.4	427	2	NA	1.43
		Van Kampen Merritt T-F Hi Inc/Van Kampen	—*	4.6	8.1	620	–3	4.90	*1.08*
A+	F	Vanguard California T-F–Ins L-T/Vanguard	7.5	7.3	6.1	488	51	none	0.26
A+	D	Vanguard Muni Bond–High Yield/Vanguard	8.7	9.1	7.2	1,117	13	none	0.26
A	D	Vanguard Muni Bond–Ins L-T/Vanguard	8.6	8.4	6.7	1,437	28	none	0.26
C	B	Vanguard Muni Bond–Intermed/Vanguard	8.4	9.3	6.5	1,766	43	none	0.26
		Vanguard Muni Bond–Ltd Term/Vanguard	—*	8.0	6.0	364	60	none	0.26
A+	D	Vanguard Muni Bond–Long-Term/Vanguard	8.6	9.2	6.9	754	8	none	0.26
F	A+	Vanguard Muni Bond–S-T/Vanguard	6.0	6.8	5.7	796	10	none	0.26
		Vanguard NJ Tax-Free–Ins L-T/Vanguard	—*	9.0	6.2	343	81	none	0.25
A	D	Vanguard NY Insured Tax-Free/Vanguard	7.2	8.4	6.2	309	44	none	0.29
A	D	Vanguard Penn Tax-Free–Ins L-T/Vanguard	8.0	8.3	6.3	673	34	none	0.26
D	A	Voyageur Minnesota Tax-Free/Voyageur	7.9	8.6	6.7	218	19	4.75	*0.82*

*Fund not in operation for full period. †Closed to new investors. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 294. Rules, page 210.

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_____

6910

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Taxable money funds

This list of money market funds is short because we think that the business of finding a good one is simple. The best deal is usually the fund with the lowest expense ratio. To make this list a fund has to have at least $500 million in assets and an expense ratio of 0.7% a year or less—that's 70 cents on every $100 invested.

Lowest expenses? Why not highest yield? Because there is so little difference between one fund and another in portfolio skills. No talent or experience will enable one buyer of $50 million in 30-day Treasury bills to get a better deal than another buyer.

Thus, if two funds have different results, it could be that one fund is taking more chances with your money than the other. Money fund managers take chances by either stretching out maturities or buying bank CDs and commercial paper rather than government-guaranteed paper. If that smidgen of risk doesn't trouble you, then go for yield. But stay away from high-expense money funds. An extra overhead charge is money down the drain. It buys you no enhancement in performance. A cheap fund costs 0.3%, an expensive one 1%. The extra 0.7% on the expensive fund comes to $70 a year per $10,000 invested. Why put it in someone else's pocket?

All that said, let's make three exceptions to the general rule that low expenses matter the most in picking one of these funds. First, convenience is important. If you have a cash management account at a broker, you probably want your money fund there. Second, the five bulleted funds can give you an additional fraction of a point in aftertax return by paying dividends that are exempt from state tax in most states. (States that refuse to exempt the dividends: Connecticut, Mississippi, North Dakota, Pennsylvania and Tennessee.) Third, the "p" after an expense ratio is a caution. It indicates that the sponsor is temporarily reducing its expense charge. When the come-on sale ends, you may have to move your money out to get a cheap fund.

Fund/distributor	Assets 6/30/91 ($mil)	Last 12 months return from income dividends	Annu expen per $1
■ Benham Govt Agency/Benham	$1,165	7.2%	$0.0
■ Capital Preservation Fund/Benham	3,375	6.6	0.5
Columbia Daily Income Co/Columbia	788	6.8	0.6
■ Dreyfus 100% US Treas MM[1]/Dreyfus	3,140	7.2	0.15
Dreyfus Liquid Assets/Dreyfus	6,644	6.8	0.65
Dreyfus Worldwide Dollar MM/Dreyfus	9,646	7.4	0.17
Fidelity Daily Income Trust/Fidelity	2,774	6.8	0.63
Kemper Money Market–Govt Secs/Kemper	1,139	6.9	0.42
Kemper Money Market–MM/Kemper	7,753	7.2	0.45
Merrill Lynch Government Fund/ML Boston	1,337	6.8	0.44
Merrill Lynch Institutional Fund/ML Boston	2,281	7.0	0.42
Merrill Lynch Retirement Res Money/ML Funds	6,400	7.0	0.65
National Liquid Reserves–Cash/Smith Barney	1,897	6.7	0.52
National Liquid Reserves–Retire/Smith Barney	949	6.7	0.59
New England Cash Mgmt–MM/TNE	1,154	6.9	0.68
Pacific Horizon–Prime/Concord Finl	2,845	7.1	0.56
Pacific Horizon–Treasury/Concord Finl	1,946	6.7	0.55
PaineWebber Cashfund/PaineWebber	4,668	6.9	0.53
PaineWebber RMA–MM/PaineWebber	4,209	6.9	0.66
Parkstone Prime Obligations/Winsbury	702	6.9	0.64p
Portico–Money Market Fund/Sunstone	640	7.0	0.50p
Scudder Cash Investment Trust/Scudder	1,729	6.9	0.65
Spartan Money Market/Fidelity	6,670	7.2	0.28p
■ Spartan US Government MM/Fidelity	1,956	7.2	0.37p
■ Spartan US Treasury MM/Fidelity	2,630	7.1	0.15p
Standby Reserve Fund/Cowen	612	6.7	0.58
USAA Mutual–Money Market/USAA	1,008	7.0	0.55
UST Master Funds–Govt Money/UST Secs	704	6.9	0.50
Vanguard MM Reserves–Federal/Vanguard	2,041	7.0	0.30
Vanguard MM Reserves–Prime/Vanguard	14,090	7.2	0.30
Vanguard MM Reserves–US Treas/Vanguard	1,974	6.8	0.30
Vantage Money Market–Cash/Smith Barney	1,168	6.7	0.55

■ Dividend exempt from state tax in states that permit flow-through of US government interest. p Net of absorption expenses by fund sponsor. [1]Formerly Dreyfus US Guaranteed Money Market.

Distributor table, page 294. Rules, page 210.

Tax-free money funds

basic rule of picking a taxable ey fund applies to tax-free money s, too. The rule, explained on the opposite, is to look for a low nse ratio.

ne logic, again, is that an institu- l buyer in the market for short- tax-exempt paper pretty much what it pays for, so differences in lts between two funds with the e quality of paper in their portfo- boil down to differences in over- l costs. To qualify for this list a free money market fund had to at least $100 million in assets. show the 32 with the lowest ense ratios.

gain, the "p" is a caution—a ning that the sponsor is temporar- cutting the fees it charges and ld raise them at any time. A further tion on the four Fidelity Spartan ds here, all of which are temporar- absorbing expenses, is that they rge fees for transactions. Thus, the rtan funds are suitable for invest- nt but not for use as checking ounts.

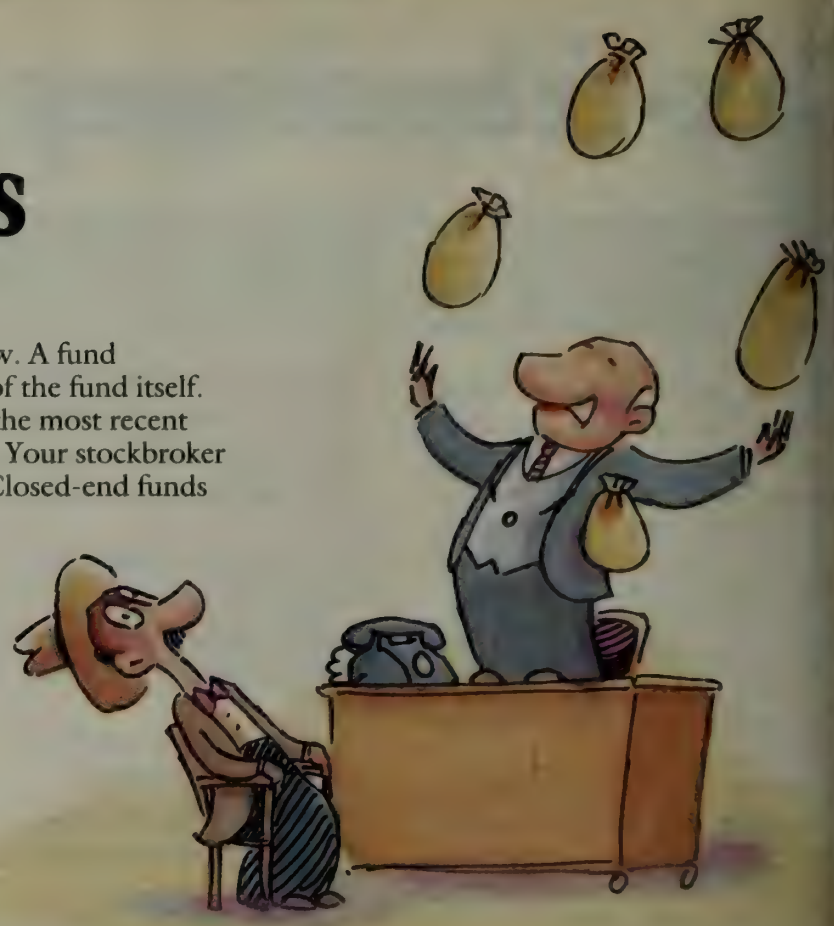
A further question for investors o want just one money fund: hich gives a better aftertax return, a able fund or a tax-free one? The swer depends on your tax bracket. good rule of thumb, however, is s: It scarcely matters. Consider a gh-bracket New York City resident. the Dreyfus 100% U.S. Treasury oney Market he would have taken 7.2% over the past year, exempt m New York City and New York ate taxes. After federal taxes at, say, %, the net return would be 4.9%. ternatively, he might have used the nguard Muni Bond–Money Mar- t. After local taxes, but giving effect the federal tax benefit for a deduc- on for local taxes, the Vanguard nd's return would have been 4.8%.

The yields on this and the facing ge represent uncompounded total youts over the past 12 months. urrent yields are a bit lower. But en, you'd be making a mistake to cus too much on yields. Compare xpense ratios.

Fund/distributor	Assets 6/30/91 ($mil)	Last 12 months return from income dividends	Annual expenses per $100
Calvert Tax-Free Reserves–Calif/Calvert	$257	5.3%	$0.31p
Carnegie Tax-Free Income Trust/Carnegie	250	4.8	0.65
Dreyfus New Jersey Muni MM/Dreyfus	861	5.0	0.16p
Dreyfus New York Tax-Exempt MM/Dreyfus	468	4.5	0.59
Evergreen Tax Exempt MM/Lieber	526	5.6	0.31p
Federated Tax-Free Trust/Federated	1,908	5.0	0.45
Fidelity Conn Municipal MM/Fidelity	414	5.0	0.23p
Fidelity Mich Municipal MM/Fidelity	179	5.1	0.22p
Fidelity Ohio Municipal MM/Fidelity	231	5.2	0.23p
Fidelity Tax-Exempt MM/Fidelity	2,880	5.0	0.44
Freedom Tax-Exempt Money/Freedom	256	4.7	0.59
General Calif Municipal MM/Dreyfus	546	5.3	0.07p
General Municipal MM/Dreyfus	339	5.0	0.62
General NY Municipal MM/Dreyfus	528	5.0	0.00p
Kemper Money Market–Tax-Ex/Kemper	795	5.1	0.38
Nuveen Tax-Exempt MM/Nuveen	2,169	5.2	0.39
Parkstone Tax-Free Fund/Winsbury	140	4.6	0.57p
Schwab Money Funds–Tax-Ex/Schwab	1,200	4.8	0.63p
Spartan California Muni MM/Fidelity	789	5.1	0.07p
Spartan New Jersey Muni MM/Fidelity	378	5.2	0.06p
Spartan New York Muni MM/Fidelity	454	5.0	0.25p
Spartan Pennsylvania Muni MM/Fidelity	304	5.3	0.35p
SteinRoe Tax-Exempt Money/Stein Roe	238	4.7	0.69
Tax-Free Instruments Trust/Federated	1,145	4.9	0.55p
Tax-Free Money Fund/Smith Barney	1,250	4.8	0.52
USAA Tax-Exempt–Calif MM/USAA	207	5.0	0.50p
USAA Tax-Exempt–Money Market/USAA	1,548	5.5	0.40
UST Master Tax-Ex–Short-Term/UST Secs	807	5.1	0.33
Vanguard California T-F–MM/Vanguard	750	4.9	0.25
Vanguard Muni Bond–MM/Vanguard	2,760	5.2	0.26
Vanguard NJ Tax-Free–MM/Vanguard	627	5.0	0.24
Vanguard Penn Tax-Free–MM/Vanguard	755	5.0	0.24

p: Net of absorption of expenses by fund sponsor

Fund distributors



Firms that market mutual funds are listed below. A fund without a distributor is listed under the name of the fund itself. Contact the distributor to get the prospectus, the most recent shareholder report and additional information. Your stockbroker may have literature on funds with sales loads. Closed-end funds trade like stocks and do not have distributors.

Fund	Symbol
Balanced	BA
Foreign Stock	FS
Global Bond	GB
Global Stock	GS
Junk Bond	JU
Money Market	MM
Municipal Bond	MU
Stock	ST
Taxable Bond	BD

Fund	Type
AAL Capital Management 222 West College Avenue Appleton, WI 54919-0007 (800) 553-6319	
AAL Capital Growth Fund	ST
AAL Income Fund	BD
AAL Municipal Bond Fund	MU
ABT Financial Services 205 Royal Palm Way Palm Beach, FL 33480 (800) 289-2281	
ABT Growth & Income Trust	ST
ABT Utility Income Fund	ST
Acorn Fund 2 North LaSalle Street Suite 500 Chicago, IL 60602-3790 (800) 922-6769	
Acorn Fund	ST

Fund	Type
Addison Capital Fund 1601 Market Street Philadelphia, PA 19103 (800) 526-6397	
Addison Capital Fund	ST
Advest Group 280 Trumbull Street Hartford, CT 06103 (800) 842-3807 (local); (800) 243-8115	
Advantage Government Securities	BD
Advantage Growth Fund	ST
Advantage Income Fund	BA
Aegon Management 4333 Edgewood Road NE Cedar Rapids, IA 52499 (800) 288-2346	
Aegon USA Growth	ST
AFA Distributors 50 Broad Street New York, NY 10004 (800) 229-8108	
AFA-Natl Aviation & Technology	ST
AFA-Natl Telecommun & Technology	ST

Fund	Ty
AIM Distributors 11 Greenway Plaza Suite 1919 Houston, TX 77046 (800) 347-1919	
Aim Equity-Charter Fund	
Aim Equity-Constellation Fund	
Aim Equity-Weingarten Fund	
Aim Limited Maturity Treasury Shs	I
Aim Summit Fund	
Fred Alger & Co 75 Maiden Lane New York, NY 10038 (800) 992-3863	
Alger Fund-Small Capitalization	
Alliance Fund Services 500 Plaza Drive Secaucus, NJ 07094 (800) 221-5672	
Alliance Balanced Shares	B
Alliance Bond-High Yield	
Alliance Bond-US Government	B
Alliance Counterpoint Fund	
Alliance Fund	

Fund	Type
nce Global–Small Cap Fund	ST
nce Growth & Income	ST
nce International Fund	FS
nce Mortgage Securities Income	BD
nce Muni Income–California	MU
nce Muni Income–Ins Natl	MU
nce Muni Income–National	MU
nce Muni Income–New York	MU
nce New Europe Fund	FS
nce Quasar Fund	ST
nce Short-Term Multi-Market	GB
nce Technology Fund	ST

A Investment Advisers
Box 1111
Bell, PA 19422
) 523-0864

A Family of Funds–Classic Growth	ST
A Family of Funds–Global Growth	GS

erican Capital Marketing
0 Post Oak Boulevard
ston, TX 77056
0) 421-5666

erican Capital Comstock Fund	ST
erican Capital Corp Bond Fund	BD
erican Capital Emerging Growth	ST
erican Capital Enterprise Fund	ST
erican Capital Equity Income	BA
erican Capital Government Secs	BD
erican Capital Growth & Income	ST
erican Capital Harbor Fund	BA
erican Capital High Yield Inv	JU
erican Capital Muni Bond Fund	MU
erican Capital Pace Fund	ST
erican Capital Tax-Ex–High Yld	MU

erican Funds Group
33 South Hope Street
s Angeles, CA 90071
714) 671-7000* (local); (800) 421-0180

mcap Fund	ST
erican Balanced Fund	BA
erican High-Income Trust	JU
erican Mutual Fund	ST
Bond Fund of America	BD
Capital Income Builder	ST
Capital World Bond Fund	GB
EuroPacific Growth Fund	FS
Fundamental Investors	ST
Growth Fund of America	ST
Income Fund of America	BA
Intermediate Bond Fund of America	BD
Investment Co of America	ST
New Economy Fund	ST
New Perspective Fund	GS
Smallcap World Fund	GS
Tax-Exempt Bond Fund of America	MU
Tax-Exempt Fund of California	MU
US Government Securities	BD
Washington Mutual Investors	ST

Fund	Type
American Growth Fund Sponsors 410 17th Street Suite 800 Denver, CO 80202 (303) 623-6137* (local); (800) 525-2406	
American Growth Fund	ST
American Investors PO Box 2500 Greenwich, CT 06836 (800) 243-5353	
American Investors Growth Fund	ST
American Pension Distributors PO Box 2529 Lynchburg, VA 24501 (800) 544-6060	
API Trust–Growth	ST
AMEV Investors 500 Bielenberg Drive Woodbury, MN 55125 (612) 738-4000* (local); (800) 800-2638	
AMEV Advantage–Asset Allocation	BA
AMEV Capital Fund	ST
AMEV Fiduciary Fund	ST
AMEV Growth Fund	ST
AMEV US Govt Securities Fund	BD
Amway Management Co 7575 East Fulton Road Ada, MI 49355 (800) 346-2670	
Amway Mutual Fund	ST
Analytic Optioned Equity Fund 2222 Martin Street Suite 230 Irvine, CA 92715 (714) 833-0294*	
Analytic Optioned Equity Fund	ST
Angeles Securities 10301 West Pico Boulevard Los Angeles, CA 90064 (213) 277-4900* (local); (800) 421-4374	
FPA Capital Fund	ST
FPA Paramount Fund	ST
FPA Perennial Fund	ST
Aquila Distributors 380 Madison Avenue Suite 2300 New York, NY 10017 (800) 228-4227	
Hawaiian Tax-Free Trust	MU
Tax-Free Fund of Colorado	MU
Tax-Free Trust of Arizona	MU
Tax-Free Trust of Oregon	MU

Fund	Type
Associated Planners Security 1925 Century Park East Suite 1900 Los Angeles, CA 90067 (213) 553-6740 (local); (800) 950-2748	
Associated Planners Stock Fund	ST
Bailard, Biehl & Kaiser 2755 Campus Drive Suite 300 San Mateo, CA 94403 (800) 882-8383	
Bailard Biehl & Kaiser Diversa Fund	GS
Robert W Baird & Co 777 East Wisconsin Avenue Milwaukee, WI 53202 (800) 792-2473	
Baird Blue Chip Fund	ST
Baron Asset Fund 450 Park Avenue Suite 2802 New York, NY 10022 (800) 992-2766	
Baron Asset Fund	ST
Bartlett Capital Trust 36 East Fourth Street Cincinnati, OH 45202 (513) 621-4612 (local); (800) 800-4612	
Bartlett Capital Trust–Basic Value	ST
Bartlett Capital Trust–Fixed Income	BD
Baxter Financial 1200 North Federal Highway Suite 424 Boca Raton, FL 33432 (800) 749-9933	
Philadelphia Fund	ST
Benham Capital Management 1665 Charleston Road Mountain View, CA 94043 (800) 472-3389	
Benham Calif Tax-Free–Intermediate	MU
Benham Calif Tax-Free–Long-Term	MU
Benham GNMA Income	BD
Benham Gold Equities Index	GS
Benham Government Agency Fund	MM
Benham Target Maturities–2005	BD
Benham Target Maturities–2015	BD
Benham Treasury Note Fund	BD
Capital Preservation Fund	MM
Berger Associates 899 Logan Street Suite 211 Denver, CO 80203 (800) 333-1001	
Berger One Hundred Fund	ST

*Will accept collect calls.

Fund	Type
Sanford C Bernstein & Co 767 Fifth Avenue New York, NY 10153 (212) 756-4097*	
Bernstein Diversified Muni	MU
Bernstein Govt Short Duration	BD
Bernstein Intermediate Duration	BD
Bernstein New York Muni	MU
Bernstein Short Duration Plus	BD
William Blair PO Box 8500 Boston, MA 02266-8500 (800) 635-2886	
Wm Blair–Growth	ST
Boston Co Funds Distributor One Boston Place Boston, MA 02108 (800) 225-5267	
Boston Co Capital Appreciation Fund	ST
Boston Co Inv–International	FS
Boston Co Special Growth Fund	ST
Brandywine Fund PO Box 4166 Greenville, DE 19807 (302) 656-6200 (local) ; (800) 338-1579	
Brandywine Fund	ST
Clayton Brown & Associates 500 West Madison Suite 3000 Chicago, IL 60661-2511 (800) 621-4770	
First Trust Fund–US Government	BD
Alex Brown & Sons 135 East Baltimore Street Baltimore, MD 21202 (800) 767-3524	
Flag Investors Emerging Growth	ST
Flag Investors International Trust	FS
Flag Investors Quality Growth Fund	ST
Flag Investors Telephone Income	ST
Flag Investors Total Return US Treas	BD
Bull & Bear Group 11 Hanover Square New York, NY 10005 (800) 847-4200	
Bull & Bear Capital Growth Fund	ST
Bull & Bear Gold Investors Fund	BA
Burnham Securities 1345 Avenue of the Americas 32nd Floor New York, NY 10105 (800) 874-3863	
Burnham Fund	ST
Fenimore International Fund–Equity	FS

Fund	Type
California Investment Trust 44 Montgomery Street Suite 2200 San Francisco, CA 94104 (800) 225-8778	
California Tax-Free Income Fund	MU
Calvert Group 1700 Pennsylvania Avenue NW Washington, DC 20006 (800) 368-2748	
Calvert-Ariel Appreciation Fund	ST
Calvert-Ariel Growth Fund	ST
Calvert Social Inv–Equity	ST
Calvert Social Inv–Managed Growth	BA
Calvert Tax-Free Reserves–California	MM
Calvert Tax-Free Reserves–Limited	MU
Capstone Asset Planning Co PO Box 3167 Houston, TX 77253-3167 (713) 750-8000 (local) ; (800) 262-6631	
US Trend Fund	ST
Cardinal Group of Funds 155 East Broad Street Mezzanine Level Columbus, OH 43215 (614) 464-6852 (local) ; (800) 848-7734	
Cardinal Fund	ST
Cardinal Government Obligations	BD
Carnegie Fund Distributors 1228 Euclid Avenue Cleveland, OH 44115 (800) 321-2322	
Carnegie-Cappiello–Growth	ST
Carnegie-Cappiello–Total Return	ST
Carnegie Tax-Free Income Trust	MM
Century Shares Trust One Liberty Square Boston, MA 02109 (617) 482-3060* (local) ; (800) 321-1928	
Century Shares Trust	ST
Cigna Securities S-323 Hartford, CT 06152 (800) 572-4462	
Cigna Growth Fund	ST
Cigna High Yield Fund	JU
Cigna Income Fund	BD
Cigna Municipal Bond Fund	MU
Cigna Utilities Fund	ST
Cigna Value Fund	ST

Fund
Colonial Investment Services One Financial Center Boston, MA 02111 (800) 225-2365
Colonial Advanced Strategies Gold
Colonial California Tax-Exempt
Colonial Fund
Colonial Government Securities Plus
Colonial Growth Shares Trust
Colonial High Yield Securities Trust
Colonial Income Trust
Colonial Massachusetts Tax-Exempt
Colonial Small Stock Index Trust
Colonial Strategic Inc–Diversified
Colonial Tax-Exempt Fund
Colonial Tax-Exempt Insured Fund
Colonial US Equity Index Trust
Colonial US Government Trust
Colonial VIP Equity–Diversified Ret
Columbia Funds Management Co PO Box 1350 Portland, OR 97207-1350 (800) 547-1707
Columbia Daily Income Co
Columbia Fixed Income Securities
Columbia Growth Fund
Columbia Municipal Bond Fund
Columbia Special Fund
Common Sense Distributors 3120 Breckinridge Boulevard Building 400 Duluth, GA 30199-0001 (800) 544-5445
Common Sense–Government
Common Sense–Growth
Common Sense–Growth & Income
Concord Financial Group 156 West 56th Street Suite 1902 New York, NY 10019 (800) 367-6078
Pacific Horizon–Aggressive Growth
Pacific Horizon–Calif Tax-Ex Bond
Pacific Horizon–Prime
Pacific Horizon–Treasury
Copley Financial Services Corp PO Box 3287 Fall River, MA 02722 (508) 674-8459*
Copley Fund

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Fund	Type
Counsellors Securities 466 Lexington Avenue New York, NY 10017-3147 (212) 878-0600 (local) ; (800) 888-6878	
Counsellors Capital Appreciation	ST
Counsellors Emerging Growth Fund	ST
Counsellors International Equity	FS
Country Capital Management Co PO Box 2222 Bloomington, IL 61701 (309) 557-3790	
Country Capital Growth Fund	ST
Cowen & Co Financial Square New York, NY 10005 (212) 495-6000 (local) ; (800) 221-5616	
Cowen Income + Growth Fund	ST
Dean Witter Reynolds Two World Trade Center InterCapital Division, 71st Floor New York, NY 10048 (800) 869-3863	
Dean Witter American Value Fund	ST
Dean Witter Calif Tax-Free Income	MU
Dean Witter Capital Growth Secs	ST
Dean Witter Convertible Secs	BA
Dean Witter Developing Growth Secs	ST
Dean Witter Dividend Growth Secs	ST
Dean Witter European Growth Fund	FS
Dean Witter Government Secs Plus	BD
Dean Witter High Yield Secs	JU
Dean Witter Intermediate Income	BD
Dean Witter Managed Assets	BA
Dean Witter Natural Resource Devel	ST
Dean Witter NY Tax-Free Income	MU
Dean Witter Option Income Trust	ST
Dean Witter Strategist	BA
Dean Witter Tax-Exempt Securities	MU
Dean Witter US Govt Securities	BD
Dean Witter Utilities Fund	ST
Dean Witter Value-Added Mkt–Equity	ST
Dean Witter World Wide Income	GB
Dean Witter World Wide Investment	GS
Delaware Distributors 10 Penn Center Plaza Philadelphia, PA 19103 (800) 523-4640	
Delaware Group Decatur Fund–I	ST
Delaware Group Decatur Fund–II	ST
Delaware Group Delaware Fund	BA
Delaware Group DelCap Fund–I	ST
Delaware Group Delchester H-Y–I	JU
Delaware Group Delchester H-Y–II	JU
Delaware Group Govt–Govt Inc II	BD
Delaware Group Tax-Free–USA	MU
Delaware Group Trend Fund	ST
DMC Tax-Free Income Trust–PA	MU

Fund	Type
Diversified Securities PO Box 357 Long Beach, CA 90801 (800) 732-1733	
Investors Research Fund	ST
Dodge & Cox One Sansome Street 35th Floor San Francisco, CA 94104 (415) 434-0311	
Dodge & Cox Balanced Fund	BA
Dodge & Cox Stock Fund	ST
Dreyfus Service Corp 144 Glenn Curtiss Boulevard Uniondale, NY 11556-0144 (800) 645-6561	
Dreyfus 100% US Treasury MM	MM
Dreyfus A Bonds Plus	BD
Dreyfus California Tax-Exempt Bond	MU
Dreyfus Capital Value Fund	ST
Dreyfus Convertible Securities Fund	BA
Dreyfus Fund	ST
Dreyfus GNMA Fund	BD
Dreyfus Growth Opportunity Fund	ST
Dreyfus Insured Municipal Bond	MU
Dreyfus Intermediate Muni Bond	MU
Dreyfus Leverage Fund	ST
Dreyfus Liquid Assets	MM
Dreyfus Massachusetts Tax-Ex Bond	MU
Dreyfus New Jersey Municipal Bond	MU
Dreyfus New Jersey Municipal MM	MM
Dreyfus New Leaders Fund	ST
Dreyfus NY Insured Tax-Exempt Bond	MU
Dreyfus NY Tax-Exempt Bond Fund	MU
Dreyfus NY Tax-Exempt Intermed Bond	MU
Dreyfus Peoples Index Fund	ST
Dreyfus Strategic Aggressive Inv	ST
Dreyfus Strategic Investing	ST
Dreyfus Strategic World Investing	GS
Dreyfus Tax-Exempt Bond Fund	MU
Dreyfus Third Century Fund	ST
Dreyfus Worldwide Dollar MM	MM
General Aggressive Growth	ST
General California Municipal Bond	MU
General California Municipal MM	MM
General Municipal Bond	MU
General Municipal Money Market	MM
General NY Municipal Bond	MU
General NY Municipal MM	MM
Premier California Municipal Bond	MU
Premier Municipal Bond	MU
Premier State Municipal–Conn	MU
Premier State Municipal–Florida	MU
Premier State Municipal–Maryland	MU
Premier State Municipal–Michigan	MU
Premier State Municipal–Ohio	MU
Premier State Municipal–Penn	MU

Fund
Dupree Investment Advisors PO Box 1149 Lexington, KY 40589 (800) 866-0614
Dupree–Kentucky Tax-Free Income
Eaton Vance Distributors 24 Federal Street Boston, MA 02110 (800) 225-6265
Eaton Vance California Municipals
Eaton Vance Equity-Income Trust
Eaton Vance Government Obligations
Eaton Vance Growth Fund
Eaton Vance High Income Trust
Eaton Vance Income Fund of Boston
Eaton Vance Investors Fund
Eaton Vance National Municipals
Eaton Vance Prime Rate Reserves
Eaton Vance Special Equities Fund
Eaton Vance Stock Fund
Eaton Vance Total Return Trust
Eclipse Financial Services PO Box 2196 Peachtree City, GA 30269 (404) 631-0414* (local) ; (800) 872-2710
Eclipse Financial Asset–Equity
Enterprise Fund Distributors 1200 Ashwood Parkway Suite 290 Atlanta, GA 30338 (800) 432-4320
Enterprise Group–Growth
Enterprise Group–Growth & Income
EQSF Advisers 767 Third Avenue 5th Floor New York, NY 10017 (212) 888-6685 (local) ; (800) 834-3400
Equity Strategies Fund
Equitable Funds 1755 Broadway Location 3D New York, NY 10019 (800) 852-6860
Equitable Funds–Growth
Equity Services National Life Drive Montpelier, VT 05604 (802) 229-3900* (local) ; (800) 233-4332
Sentinel Balanced Fund
Sentinel Common Stock Fund
Sentinel Growth Fund

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ust-in-Time in Half the Time

pplied Metelligence from

ansteel/Escast

Investment Casting requires about 88 hours of elapsed time. This schedule just does not measure up to today's "Just-in-time" production demands. Enter Applied Metelligence from Fansteel/Escast.

First, work flow is redesigned to reduce materials handling.

Second, steps are implemented to reclaim wax used in the investment casting process.

Third, dies are rapidly exchanged to reduce operator and machine idle time.

Metallurgy Intelligence

M e t e l l i g e n c e ·

Fourth, a new chemical binder is used to reduce the casting drying time from 24 to 4 hours.

The results? Work-in-process time is halved, accounts receivables are reduced by four days and daily shipments are leveled.

Applied Metelligence at Fansteel/Escast means "Just-in-time" manufacturing in half the time. It's just one more reason it will pay you to know more about us.

Escast produces investment castings and machinery for the investment casting industry. The company currently serves diverse markets including automotive, industrial hardware, military goods and general OEM parts.

Fansteel

1 Tantalum Place
North Chicago, IL 60064
708-689-4900

Fund	Type
Fairfield Group 200 Gibraltar Road Horsham, PA 19044 (215) 443-7850 (local) ; (800) 441-3885	
St Clair Equity–Capital Growth Fund	ST
FBL Investment Advisory Services 5400 University Avenue West Des Moines, IA 50265 (800) 247-4170	
FBL–Growth Common Stock	ST
Federated Securities Corp Federated Investors Tower 17th Floor Pittsburgh, PA 15222-3779 (800) 245-5000	
American Leaders Fund	ST
Federated GNMA Trust	BD
Federated Growth Trust	ST
Federated High Yield Trust	JU
Federated Income Trust	BD
Federated Intermediate Government	BD
Federated Intermediate Municipal	MU
Federated Short-Intermediate Govt	BD
Federated Stock & Bond Fund	BA
Federated Stock Trust	ST
Federated Tax-Free Income Fund	MU
Federated Tax-Free Trust	MM
Fortress Municipal Income Fund	MU
Fortress Utility Fund	ST
Fund for US Govt Securities	BD
Government Income Securities	BD
International Equity Fund	FS
Liberty High Income Bond Fund	JU
Liberty Utility Fund	ST
Salem Funds–Fixed Income	BD
Salem Funds–Growth	ST
Tower–Capital Appreciation	ST
Fidelity Distributors Corp Devonshire Street Boston, MA 02109 (800) 544-8888	
Fidelity Asset Manager	BA
Fidelity Balanced Fund	BA
Fidelity Blue Chip Growth Fund	ST
Fidelity Calif Tax-Free Insured	MU
Fidelity Calif Tax-Free High Yield	MU
Fidelity Capital & Income Fund	JU
Fidelity Capital Appreciation	ST
Fidelity Connecticut Muni MM	MM
Fidelity Contrafund	ST
Fidelity Convertible Securities Fund	BA
Fidelity Daily Income Trust	MM

Fund	Type
Fidelity Destiny Portfolio II	ST
Fidelity Disciplined Equity	ST
Fidelity Equity-Income Fund	ST
Fidelity Europe Fund	FS
Fidelity Flexible Bond Port	BD
Fidelity Fund	ST
Fidelity Ginnie Mae	BD
Fidelity Global Bond Fund	GB
Fidelity Government Securities Fund	BD
Fidelity Growth & Income	ST
Fidelity Growth Company	ST
Fidelity Intermediate Bond Fund	BD
Fidelity Intl Growth & Income	FS
Fidelity Low-Priced Stock Fund	ST
Fidelity Magellan Fund	ST
Fidelity Mass Tax-Free High Yield	MU
Fidelity Michigan Municipal MM	MM
Fidelity Michigan Tax-Free High Yield	MU
Fidelity Minnesota Tax-Free	MU
Fidelity Mortgage Securities	BD
Fidelity NY Tax-Free High Yield	MU
Fidelity NY Tax-Free Insured	MU
Fidelity Ohio Municipal MM	MM
Fidelity Ohio Tax-Free High Yield	MU
Fidelity OTC Portfolio	ST
Fidelity Overseas Fund	FS
Fidelity Pacific Basin Fund	FS
Fidelity Puritan Fund	BA
Fidelity Real Estate Investment	ST
Fidelity Retirement Growth	ST
Fidelity Select–American Gold	GS
Fidelity Select–Biotechnology	ST
Fidelity Select–Chemicals	ST
Fidelity Select–Energy	ST
Fidelity Select–Energy Service	ST
Fidelity Select–Environment Service	ST
Fidelity Select–Financial Services	ST
Fidelity Select–Food & Agriculture	ST
Fidelity Select–Health Care	ST
Fidelity Select–Leisure	ST
Fidelity Select–Medical Delivery	ST
Fidelity Select–Paper & Forest Prods	ST
Fidelity Select–Prec Metals & Mins	FS
Fidelity Select–Regional Banks	ST
Fidelity Select–Retailing	ST
Fidelity Select–Technology	ST
Fidelity Select–Telecommunications	ST
Fidelity Select–Utilities	ST
Fidelity Short-Term Bond Port	BD
Fidelity Special Situations–Plymouth	ST
Fidelity Tax-Exempt Money Market	MM
Fidelity Tax-Free–Aggressive	MU
Fidelity Tax-Free–High Yield	MU
Fidelity Tax-Free–Insured	MU
Fidelity Tax-Free–Ltd Term Munis	MU
Fidelity Tax-Free–Municipal Bond	MU
Fidelity Trend Fund	ST
Fidelity Utilities Income	ST

Fund	Ty
Fidelity Worldwide Fund	
Plymouth Growth Opportunities	
Plymouth Income & Growth	
Spartan California Muni High Yield	
Spartan California Muni MM	
Spartan Connecticut Muni High Yield	
Spartan Government Income Fund	
Spartan Limited Maturity Govt	
Spartan Market Index Fund	
Spartan Money Market Fund	
Spartan Municipal Income	
Spartan New Jersey Muni High Yield	
Spartan New Jersey Muni MM	
Spartan New York Muni High Yield	
Spartan New York Muni MM	
Spartan Pennsylvania Muni High Yield	
Spartan Pennsylvania Muni MM	
Spartan US Government MM	
Spartan US Treasury MM Fund	
Fiduciary Management 225 East Mason Street Milwaukee, WI 53202 (414) 226-4556* (local) ; (800) 338-1579	
Fiduciary Capital Growth Fund	
First Eagle Fund of America 45 Broadway New York, NY 10006 (800) 451-3623	
First Eagle Fund of America	
First Investors Management Co 95 Wall Street New York, NY 10005 (908) 855-2500 (local) ; (800) 423-4026	
First Investors Blue Chip	
First Investors Fund for Income	
First Investors Global Fund	
First Investors Government Fund	
First Investors High Yield Fund	
First Investors Insured Tax-Exempt	
First Investors NY Insured T-F	
First Investors Total Return Fund	
Flagship Financial One First National Plaza Suite 910 Dayton, OH 45402 (800) 227-4648	
Flagship Tax-Ex–Conn Double	
Flagship Tax-Ex–Florida Double	
Flagship Tax-Ex–Kentucky Triple	
Flagship Tax-Ex–Michigan Triple	
Flagship Tax-Ex–NC Triple	
Flagship Tax-Ex–Ohio Double	

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	Type
Funds	
x 7177	
1, OH 43017	
325-3539	
-funds–Growth Fund	ST
-funds–Muirfield Fund	ST
nders Asset Management	
East Third Avenue	
er, CO 80206	
525-2440	
nders Blue Chip	ST
nders Frontier Fund	ST
nders Growth Fund	ST
nders Special Fund	ST
nklin Distributors	
Mariner's Island Boulevard	
Mateo, CA 94404-1585	
) 342-5236	
nklin Adj US Govt Securities	BD
nklin AGE High Income Fund	JU
nklin Arizona Tax-Free Income	MU
nklin Calif Insured Tax-Free Inc	MU
nklin Calif Tax-Free Income	MU
nklin DynaTech Fund	ST
nklin Equity Fund	ST
nklin Federal Tax-Free Income	MU
nklin Florida Tax-Free Income	MU
nklin Global Opportunity Income	GB
nklin Gold Fund	FS
nklin Growth Fund	ST
nklin High Yield Tax-Free Income	MU
nklin Income Fund	BA
nklin Insured Tax-Free Income	MU
nklin Mass Insured Tax-Free Inc	MU
nklin Mich Insured Tax-Free Inc	MU
nklin Minn Insured Tax-Free Inc	MU
nklin New Jersey Tax-Free Inc	MU
nklin New York Tax-Free Inc	MU
nklin Ohio Insured Tax-Free Income	MU
nklin Oregon Tax-Free Income	MU
nklin Penn Tax-Free Income	MU
nklin Premier Return Fund	ST
nklin PR Tax-Free Income Fund	MU
nklin Rising Dividends	ST
nklin Tax-Exempt Money Fund	MM
nklin US Government Securities	BD
nklin Utilities Fund	ST
nklin Virginia Tax-Free Income	MU

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Fund	Type
Freedom Capital Management Corp One Beacon Street 4th Floor Boston, MA 02108 (800) 225-6258	
Freedom Inv–Gold & Government	ST
Freedom Inv–Government Income	BD
Freedom Inv–Managed Tax-Exempt	MU
Freedom Inv–Regional Bank	ST
Freedom Inv II–Global Fund	GS
Freedom Inv II–Global Income	GB
Freedom Inv III–Environmental	ST
Freedom Tax-Exempt Money	MM
Fund/Plan Services PO Box 874 Conshohocken, PA 19428 (800) 225-8011	
Neuwirth Fund	ST
Pine Street Fund	ST
Winthrop Focus Funds–Growth	ST
Fundamental Services 111 Broadway Suite 1107 New York, NY 10006 (800) 225-6864	
New York Muni Fund	MU
Furman Selz 230 Park Avenue New York, NY 10169 (800) 845-8406	
Westwood Fund	ST
Gabelli & Co PO Box 1634 Grand Central Station New York, NY 10163 (800) 422-3554	
Gabelli Asset Fund	ST
Gabelli Convertible Securities Fund	BA
Gabelli Growth Fund	ST
Gabelli Value Fund	ST
GAM Funds 135 East 57th Street 29th Floor New York, NY 10022 (617) 482-9300*	
GAM Global Fund	GS
GAM International Fund	FS
GAM Pacific Basin Fund	FS
Gateway Investment Advisers 400 Technecenter Drive Suite 220 Milford, OH 45150 (800) 354-6339	
Gateway Index Plus Fund	ST

Fund	Type
Gintel & Co 6 Greenwich Office Park Greenwich, CT 06831 (203) 622-6400* (local) ; (800) 243-5808	
Gintel Capital Appreciation Fund	ST
Gintel Erisa Fund	ST
GIT Investment Services 1655 North Fort Myer Drive Arlington, VA 22209 (800) 336-3063	
GIT Equity Trust–Special Growth	ST
GNA Investors Trust Two Union Square Suite 5600 Seattle, WA 98101-2336 (800) 426-5520	
GNA Investors–US Govt Secs	BD
Gradison & Co 580 Walnut Street Cincinnati, OH 45202 (800) 869-5999	
Gradison Established Growth Fund	ST
Gradison Government Income Fund	BD
Gradison Opportunity Growth Fund	ST
Great Western Financial Advisors 888 South Figueroa Street Suite 1100 Los Angeles, CA 90017 (800) 221-9876	
GW Sierra–California Municipal Inc	MU
GW Sierra–Growth & Income Fund	ST
GW Sierra–US Government Securities	BD
GT Global Financial Services 50 California Street 27th Floor San Francisco, CA 94111-4624 (415) 392-6181* (local) ; (800) 548-9995	
GT Global Growth–America	ST
GT Global Growth–Europe	FS
GT Global Growth–International	FS
GT Global Growth–Japan	FS
GT Global Growth–Pacific	FS
GT Global Growth–Worldwide	GS
GT Global Healthcare Fund	GS
GT Investment–Global Bond	GB
GT Investment–Global Govt Income	BD
Guardian Investor Services Corp 201 Park Avenue South New York, NY 10003 (800) 221-3253	
Guardian Park Ave Fund	ST

Fund	Ty
John Hancock Advisors 101 Huntington Avenue 6th Floor Boston, MA 02199 (617) 375-1800 (local) ; (800) 225-5291	
John Hancock Bond Fund	B
John Hancock Global Fund	G
John Hancock Government Spectrum	B
John Hancock Growth Fund	S
John Hancock Tax-Exempt Income	M
John Hancock US Govt Securities	B
HCA Securities One SeaGate Toledo, OH 43666 (419) 247-2477 (local) ; (800) 422-1050	
Harbor Capital Appreciation	S
Harbor Growth Fund	S
Harbor International	I
Harbor Value	S
Heine Securities 51 John F Kennedy Parkway Short Hills, NJ 07078 (201) 912-2100* (local) ; (800) 448-3863	
Mutual Series Fund–Beacon	S
Mutual Series Fund–Mutual Shares	S
Mutual Series Fund–Qualified	S
Heritage Asset Management 880 Carillon Parkway St Petersburg, FL 33716 (813) 573-8143 (local) ; (800) 421-4184	
Heritage Capital Appreciation	S
Wayne Hummer & Co 175 West Jackson Boulevard Chicago, IL 60604 (312) 431-1700* (local) ; (800) 621-4477	
Wayne Hummer Growth Fund	S
Huntington Investments 251 South Lake Avenue Suite 600 Pasadena, CA 91101 (818) 440-9688 (local) ; (800) 826-0188	
International Currency–Global	G
International Currency–Hard Currency	G
International Currency–High Income	G
IAI Funds PO Box 357 Minneapolis, MN 55440 (612) 371-2884 (local) ; (800) 927-3863	
IAI Bond Fund	B
IAI International Fund	F
IAI Regional Fund	S
IAI Stock Fund	S

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	Type
Management	
x 5068	
vater, FL 34618	
585-6565 (local) ; (800) 624-4339	
Fund	ST
II	ST
Fund 3	ST
Financial Services	
ower 10	
apolis, MN 55440	
372-3733 (local) ; (800) 328-8300	
Blue Chip Advantage Fund	ST
Bond Fund	BD
California Tax-Exempt Fund	MU
Discovery Fund	ST
Equity Plus	ST
Extra Income Fund	JU
Federal Income Fund	BD
Global Bond Fund	GB
Global Growth Fund	GS
Growth Fund	ST
High Yield Tax-Exempt Fund	MU
Insured Tax-Exempt Fund	MU
International Fund	FS
Managed Retirement Fund	ST
Minnesota Tax-Exempt Fund	MU
Mutual	BA
New Dimensions Fund	ST
Precious Metals Fund	FS
Progressive Fund	ST
Selective Fund	BD
Stock Fund	ST
Strategy–Aggressive Equity	ST
Strategy–Equity	ST
Strategy–Income	BD
Strategy–Worldwide Growth	FS
Tax-Exempt Bond Fund	MU
Utilities Income	ST
vesco Funds Group	
Box 2040	
enver, CO 80201	
03) 779-1233 (local) ; (800) 525-8085	
inancial Dynamics Fund	ST
inancial Industrial Fund	ST
inancial Industrial Income Fund	ST
inancial Series Trust–Equity Fund	ST
inancial Series Trust–Flex Fund	ST
inancial Series Trust–Intl Growth	FS
inancial Strategic–European	FS
inancial Strategic–Financial Services	ST
inancial Strategic–Gold	ST
inancial Strategic–Health Science	ST
inancial Strategic–Technology	ST
inancial Strategic–Utilities	ST
inancial Tax-Free Income Shares	MU

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Vanguard Municipal Bond Fund

SEVEN WAYS TO FIGHT BACK AGAINST TAXES

When Federal taxes make inroads on your income, municipal bond funds can be your first line of defense. The income from these bonds is 100% free from Federal income tax.*

Tax-free investing with Vanguard means greater flexibility for you.

Vanguard Municipal Bond Fund has seven professionally managed Portfolios:

Money Market Portfolio invests in short-term, high-quality municipal bonds and has an average weighted maturity of less than 120 days. Principal risk is minimal.

Short-Term Portfolio invests in high-quality municipal bonds and has an average weighted maturity of less than 2 years. Price fluctuations and principal risk should be low.

Limited-Term Portfolio invests in high-quality municipal bonds and has an average weighted maturity of 2 to 5 years. Price fluctuations and principal risk should be moderate.

Intermediate-Term Portfolio invests in high-quality municipal bonds and has an average weighted maturity of 7 to 12 years. Price fluctuations and principal risk are moderate to high.

Long-Term Portfolio invests in high-quality municipal bonds and has an average weighted maturity of 15 to 25 years. Has a high potential for price fluctuations and risk to principal.

Insured Long-Term Portfolio invests in high-quality municipal bonds and has an average weighted maturity of 15 to 25 years. The bonds are covered by insurance, guaranteeing the timely payment of principal and interest, however, principal remains subject to price fluctuations.

High-Yield Portfolio invests primarily in medium-quality, investment-grade issues and has an average weighted maturity of 15 to 25 years. The Portfolio pursues the highest yields of the Fund and has a high potential for price fluctuations and risk to principal.

Lower costs mean higher yields.

The Vanguard Municipal Bond Fund has virtually the lowest operating costs in the industry: 0.25 of 1%**, with no commissions, no fees—a pure no-load fund. And all other things being equal, lower costs result in higher yields. Minimum initial investment $3,000. Free checkwriting for $250 or more.

* Income may be subject to state and local taxes. A portion of income may be subject to the Federal alternative minimum tax.
**Lipper Directors' Analytical Data

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Please read the fund's prospectus carefully before you invest or send money. It contains complete information on advisory fees, distribution charges and other expenses.

THE Vanguard GROUP OF INVESTMENT COMPANIES

Fund	Type
ISI 717 Fifth Avenue New York, NY 10022 (800) 955-7175	
ISI Total Return US Treasury	BD
Ivy Fund 40 Industrial Park Road Hingham, MA 02043 (617) 749-1416 (local) ; (800) 235-3322	
Ivy Growth Fund	ST
Ivy International Fund	FS
Janus Capital 100 Fillmore Street Suite 300 Denver, CO 80206-4923 (800) 525-3713	
Janus Fund	ST
Janus Twenty Fund	ST
Janus Venture Fund	ST
Jefferson-Pilot Investor Services PO Box 22086 Greensboro, NC 27420 (919) 691-3448 (local) ; (800) 458-4498	
JP Growth Fund	ST
Jones & Babson 2440 Pershing Road Kansas City, MO 64108 (816) 471-5200 (local) ; (800) 422-2766	
Babson Bond–Portfolio L	BD
Babson Enterprise Fund	ST
Babson Growth Fund	ST
Babson Value Fund	ST
UMB Stock Fund	ST
Kaufmann Fund 17 Battery Place Suite 2624 New York, NY 10004 (212) 344-2661* (local) ; (800) 237-0132	
Kaufmann Fund	ST
Kemper Financial Services 120 South LaSalle Street Chicago, IL 60603 (312) 781-1121* (local) ; (800) 621-1048	
Kemper Blue Chip Fund	ST
Kemper California Tax-Free Income	MU
Kemper Diversified Income Fund	JU
Kemper Environmental Services Fund	ST
Kemper Growth Fund	ST
Kemper High Yield Fund	JU
Kemper Inc & Capital Preservation	BD
Kemper International Fund	FS
Kemper Invest-Diversified Income	BD
Kemper Invest–Equity	ST
Kemper Invest–Government	BD
Kemper Invest–High Yield	JU

Fund	Type
Kemper Invest–Total Return	BA
Kemper Money Market–Govt Secs	MM
Kemper Money Market–MM	MM
Kemper Money Market–Tax-Exempt	MM
Kemper Municipal Bond Fund	MU
Kemper New York Tax-Free Fund	MU
Kemper Retirement Fund I	BD
Kemper Summit Fund	ST
Kemper Technology Fund	ST
Kemper Total Return Fund	BA
Kemper US Government Securities	BD
Kemper Securities Group 1331 Euclid Avenue Cleveland, OH 44115 (800) 553-5533	
Selected American Shares	ST
Selected Special Shares	ST
Keystone Distributors PO Box 2121 Boston, MA 02106-2121 (800) 343-2898	
Hartwell Emerging Growth	ST
Keystone America Omega	ST
Keystone America Tax-Free Income	MU
Keystone Custodian B-1	BD
Keystone Custodian B-2	BD
Keystone Custodian B-4	JU
Keystone Custodian K-1	BA
Keystone Custodian K-2	ST
Keystone Custodian S-1	ST
Keystone Custodian S-3	ST
Keystone Custodian S-4	ST
Keystone International Fund	FS
Keystone Precious Metals	FS
Keystone Tax-Exempt Trust	MU
Keystone Tax-Free Fund	MU
Kidder, Peabody & Co 20 Exchange Place New York, NY 10005 (212) 510-5351*	
Kidder, Peabody Equity Income	ST
Kleinwort Benson 200 Park Avenue 24th Floor New York, NY 10166 (212) 687-2515 (local) ; (800) 237-4218	
Kleinwort Benson Intl Equity	FS
Legg Mason Wood Walker 111 South Calvert Street 21st Floor Baltimore, MD 21202 (301) 539-3400* (local) ; (800) 368-2558	
Legg Mason Inc–US Govt Intermediate	BD
Legg Mason Special Investment Trust	ST
Legg Mason Total Return Trust	ST
Legg Mason Value Trust	ST

Fund	Ty
Lexington Management Corp PO Box 1515 Park 80 West Plaza II Saddle Brook, NJ 07662 (800) 526-0056	
Lexington Corp Leaders Trust Fund	
Lexington Global Fund	
Lexington GNMA Income Fund	
Lexington Goldfund	
Lexington Growth & Income Fund	
Lexington Worldwide Emerging Mkts	
Liberty Securities 600 Atlantic Avenue 23rd Floor Boston, MA 02210-2214 (800) 542-3863	
Liberty Advantage US Govt Secs	
Lieber & Co 2500 Westchester Avenue Purchase, NY 10577 (914) 694-2020 (local) ; (800) 235-0064	
Evergreen Fund	
Evergreen Limited Market Fund	
Evergreen Tax Exempt MM	M
Evergreen Total Return Fund	
Evergreen Value Timing Fund	
Lincoln Investment Planning 218 Glenside Avenue Wyncote, PA 19095-1595 (215) 887-8111 (local) ; (800) 242-1421	
Rightime Blue Chip Fund	
Rightime Fund	
Rightime Growth Fund	
Lindner Management Corp PO Box 11208 St Louis, MO 63105 (314) 727-5305	
Lindner Dividend Fund	
Lindner Fund	
Lord Abbett & Co 767 Fifth Avenue 11th Floor New York, NY 10153-0203 (800) 821-5129 (local) ; (800) 223-4224	
Affiliated Fund	
Lord Abbett Bond-Debenture Fund	J
Lord Abbett Calif Tax-Free Income	M
Lord Abbett Developing Growth	
Lord Abbett Equity Fund-1990	
Lord Abbett Global Fund–Equity	
Lord Abbett Tax-Free Income–Natl	M
Lord Abbett Tax-Free Income–New York	M
Lord Abbett US Government Secs	
Lord Abbett Value Appreciation	

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"Mid-sized businesses can use some big-league insurance help right now."

ristine LaSala, Senior Vice President d Deputy Manager of J&H New York, on ving mid-sized companies:

Guiding a business through a nervous onomic environment can be tough. Unfortunately, for a lot of mid-sized mpanies it might get tougher.

Take the workers compensation surance problem. Claims costs continue climb. In some states insurers have pped writing coverage, leaving nployers grasping for solutions.

And now there's more bad employer ws: medical benefit plan costs are up er 40 percent in just two years—eating e average company out of nearly a arter of its earnings.

On top of it all are new FASB accounting rules covering health care benefits for active and retired employees. Most companies haven't gathered the data needed to comply, which puts another financial strain on mid-sized operations.

Big companies have people to deal with such problems. Mid-sized businesses usually don't.

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Fund	Type
Lutheran Brotherhood Securities 625 Fourth Avenue South Minneapolis, MN 55415 (800) 328-4552	
Lutheran Brotherhood Fund	ST
Lutheran Brotherhood High Yield	JU
Lutheran Brotherhood Income Fund	BD
Lutheran Brotherhood Muni Bond	MU
Mackenzie Investment Management PO Box 5007 Boca Raton, FL 33431-0807 (800) 456-5111	
Mackenzie American Fund	ST
Mackenzie No Amer Total Return	BA
Mairs & Power 332 Minnesota Street West-2062 First National Bank Building St Paul, MN 55101 (612) 222-8478	
Mairs & Power Growth Fund	ST
Horace Mann Growth Fund One Horace Mann Plaza Springfield, IL 62715 (800) 999-1030	
Horace Mann Growth Fund	ST
Massachusetts Financial Services PO Box 2281 Boston, MA 02107 (800) 225-2606	
Mass Capital Development Fund	ST
Mass Financial Bond Fund	BD
Mass Financial Development Fund	ST
Mass Financial Emerging Growth	ST
Mass Financial High Income–Series I	JU
Mass Financial Special Fund	ST
Mass Financial Total Return Trust	BA
Mass Investors Growth Stock Fund	ST
Mass Investors Trust	ST
MFS Government Income Plus	BD
MFS Government Premium Account	BD
MFS Government Securities	BD
MFS Lifetime Capital Growth Trust	ST
MFS Lifetime Emerging Growth	ST
MFS Lifetime Global Equity Trust	GS
MFS Lifetime Government Income +	BD
MFS Lifetime High Income Trust	JU
MFS Lifetime Intermediate Income	BD
MFS Lifetime Managed Muni Bond	MU
MFS Lifetime Managed Sectors Trust	ST
MFS Lifetime Total Return Trust	ST
MFS Managed High Yield Muni Bond	MU
MFS Managed M-S Tax-Ex-Md	MU
MFS Managed M-S Tax-Ex-Mass	MU
MFS Managed M-S Tax-Ex-NC	MU
MFS Managed M-S Tax-Ex-Va	MU
MFS Managed Municipal Bond	MU
MFS Managed Sectors Trust	ST
MFS Worldwide Governments	GB

Fund	Type
Mathers Fund 100 Corporate North Suite 201 Bannockburn, IL 60015 (800) 962-3863	
Mathers Fund	ST
Merrill Lynch Funds Boston One Financial Center 15th Floor Boston, MA 02111 (800) 225-1576	
Merrill Lynch Government Fund	MM
Merrill Lynch Institutional Fund	MM
Merrill Lynch Funds Distributor PO Box 9011 Princeton, NJ 08543-9011 (800) 637-3863	
Merrill Lynch Balanced Inv & Retire	BA
Merrill Lynch Basic Value Fund	ST
Merrill Lynch Calif Muni Bond	MU
Merrill Lynch Capital Fund	ST
Merrill Lynch Corp–High Income	JU
Merrill Lynch Corp–High Quality	BD
Merrill Lynch Devel Capital Mkts	ST
Merrill Lynch EuroFund	FS
Merrill Lynch Federal Securities	BD
Merrill Lynch Fund for Tomorrow	ST
Merrill Lynch Global Allocation	GS
Merrill Lynch Global Bond Inv & Ret	GB
Merrill Lynch Growth Inv & Retire	ST
Merrill Lynch Intl Holdings	GS
Merrill Lynch Muni–High Yield	MU
Merrill Lynch Muni–Insured	MU
Merrill Lynch Muni–Ltd Maturity	MU
Merrill Lynch Municipal Income	MU
Merrill Lynch Natural Resources	ST
Merrill Lynch NY Muni Bond	MU
Merrill Lynch Pacific Fund	FS
Merrill Lynch Phoenix Fund	BA
Merrill Lynch Retire/Income Fund	BD
Merrill Lynch Retirement Res Money	MM
Merrill Lynch Special Value	ST
Merrill Lynch Strategic Dividend	ST
Sci/Tech Holdings	ST
Merriman Investment Trust 1200 Westlake Avenue North Suite 700 Seattle, WA 98109 (800) 423-4893	
Merriman Timed Asset Allocation	BA
Merriman Timed Capital Apprec	ST

Fund
Mesirow Investment Services 350 North Clark Street Chicago, IL 60610 (800) 458-5222
Skyline Fund–Special Equities
MetLife–State Street Investment One Financial Center 30th Floor Boston, MA 02111 (800) 882-0052
MetLife-State Street Capital Apprec
MetLife-State Street Equity Income
MetLife-State Street Equity Inv
MetLife-State Street Global Energy
MetLife-State Street Government Inc
MetLife-State Street High Income
MetLife-State Street Managed Assets
State Street Investment Trust
Murphey Favre West 601 Riverside Avenue Spokane, WA 99201 (800) 543-8072
Composite Bond & Stock Fund
Composite Growth Fund
Composite Northwest 50 Fund
Composite Tax-Exempt Bond Fund
Composite US Govt Securities
Mutual Benefit Financial Service Co 290 Westminster Street Providence, RI 02903 (800) 323-4726
Mutual Benefit Fund
Mutual of Omaha Fund Management 10235 Regency Circle Omaha, NE 68114 (800) 228-9596
Mutual of Omaha Growth Fund
Mutual of Omaha Income Fund
Mutual of Omaha Tax-Free Income
National Securities & Research Corp 2 Pickwick Plaza Greenwich, CT 06830 (800) 223-7757
California Tax-Exempt Bonds
National Bond Fund
National Federal Securities Trust
National Global Allocation Fund
National Stock Fund
National Total Income Fund
National Total Return Fund
National World Wide Opportunities

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	Type
nar adison Avenue or ork, NY 10017 651-1800	
Fund	ST
nwide Financial Services ationwide Plaza bus, OH 43216 848-0920	
onwide Fund	ST
onwide Growth Fund	ST
onwide Tax-Free Fund	MU
berger & Berman Management Madison Avenue York, NY 10173 877-9700	
B Genesis Fund	ST
B Guardian Fund	ST
B Limited Maturity Bond	BD
B Manhattan Fund	ST
B Partners Fund	ST
B Selected Sectors Plus Energy	ST
yton Fund Box 1348 aukee, WI 53201) 242-7229	
yton Growth Fund	ST
holas Co North Water Street te 1010 aukee, WI 53202 4) 272-6133*	
holas Fund	ST
holas II	ST
holas Limited Edition	ST
mura Capital Management Maiden Lane th Floor w York, NY 10038 00) 833-0018	
omura Pacific Basin Fund	FS
ortheast Investors Trust Congress Street th Floor, Room 1000 ston, MA 02109 00) 225-6704	
ortheast Investors Growth	ST
ortheast Investors Trust	BD

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DW 1252

***Source: IBC/Donoghue's Money Fund Report for 2/23/89–6/30/91 during which certain expenses were absorbed, some of which are now being borne by the Fund. Had expenses not been absorbed, Fund's yield would have been lower. There can be no guarantee that the Fund will be able to maintain a stable net asset value of $1 per share nor is the value of the Fund's shares insured or guaranteed by the U.S. Government.** Yield fluctuates. Past performance is no guarantee of future results. Dreyfus Service Corporation, Distributor.

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Fund	Type
John Nuveen & Co 333 West Wacker Drive Chicago, IL 60606 (800) 621-7227	
Nuveen Calif Tax-Free–Spec Bond	MU
Nuveen Insured Tax-Free Bond–Natl	MU
Nuveen Insured Tax-Free Bond–NY	MU
Nuveen Municipal Bond Fund	MU
Nuveen Tax-Exempt Money Market	MM
NYLife Securities 51 Madison Avenue New York, NY 10010 (800) 522-4202	
MainStay–Capital Appreciation	ST
MainStay–Government Plus	BD
MainStay–High Yield Corp Bond	JU
MainStay–Tax-Free Bond	MU
MainStay–Total Return Fund	BA
MainStay–Value Fund	ST
Olympic Trust 800 West Sixth Street Suite 540 Los Angeles, CA 90017 (800) 346-7301	
Olympic Trust–Equity Income	ST
Oppenheimer Fund Management PO Box 300 Denver, CO 80201 (800) 525-7048	
Oppenheimer Asset Allocation Fund	BA
Oppenheimer California Tax-Exempt	MU
Oppenheimer Discovery Fund	ST
Oppenheimer Equity Income Fund	ST
Oppenheimer Fund	ST
Oppenheimer Global Bio-Tech Fund	GS
Oppenheimer Global Environment	GS
Oppenheimer Global Fund	GS
Oppenheimer Gold & Special Mins	FS
Oppenheimer High Yield Fund	JU
Oppenheimer New York Tax-Exempt	MU
Oppenheimer Premium Income Fund	ST
Oppenheimer Special Fund	ST
Oppenheimer Strategic Income Fund	BD
Oppenheimer Target Fund	ST
Oppenheimer Tax-Free Bond Fund	MU
Oppenheimer Time Fund	ST
Oppenheimer Total Return Fund	ST
Oppenheimer US Government Trust	BD
Oppenheimer Management PO Box 5061 Denver, CO 80217 (800) 525-7048	
Oppenheimer Value Stock	ST

Fund	Type
Overland Express PO Box 63084 San Francisco, CA 94163 (800) 552-9612	
Overland Express Asset Allocation	BA
Overland Express Calif T-F Bond	MU
Pacific Financial Research 9601 Wilshire Boulevard Suite 828 Beverly Hills, CA 90210 (800) 776-5033	
Clipper Fund	ST
PaineWebber 1000 Harbor Boulevard Prospectus Department, 1st Floor Weehawken, NJ 07087 (201) 902-7341	
PaineWebber Asset Allocation	BA
PaineWebber Atlas Global Growth	GS
PaineWebber Blue Chip Growth Fund	ST
PaineWebber California Tax-Free Income	MU
PaineWebber Cashfund	MM
PaineWebber Dividend Growth Fund	ST
PaineWebber Europe Growth Fund	FS
PaineWebber Fixed Income–High Inc	JU
PaineWebber Fixed Income–Inv Grade	BD
PaineWebber Fixed Income–US Govt	BD
PaineWebber Global Energy Fund	GS
PaineWebber Global Growth & Income	GS
PaineWebber Global Income Fund	GB
PaineWebber Growth Fund	ST
PaineWebber Income Fund	BD
PaineWebber National Tax-Free Income	MU
PaineWebber Regional Finl Growth	ST
PaineWebber RMA–Money Market	MM
Parnassus Financial Management 244 California Street San Francisco, CA 94111 (800) 999-3505	
Parnassus Fund	ST
Pasadena Group of Mutual Funds 600 North Rosemead Boulevard Pasadena, CA 91107-2101 (800) 882-2855	
Pasadena Growth Fund	ST
Pax World Fund 224 State Street Portsmouth, NH 03801 (800) 767-1729	
Pax World Fund	GS
Penn Square Management 2650 Westview Drive Wyomissing, PA 19610 (800) 523-8440	
Penn Square Mutual Fund	ST

Fund
Pennsylvania Mutual Fund 1414 Avenue of the Americas New York, NY 10019 (800) 221-4268
Pennsylvania Mutual Fund
Permanent Portfolio PO Box 5847 Austin, TX 78763 (800) 531-5142
Permanent Portfolios–Permanent
Permanent Portfolios–Treasury Bill
GR Phelps & Co 140 Garden Street MS 305 Hartford, CT 06154 (800) 243-2501
Connecticut Mutual–Growth
Connecticut Mutual–Total Return
Phoenix Equity Planning Corp 100 Bright Meadow Boulevard Enfield, CT 06083-1989 (800) 243-4361
Phoenix Balanced Fund
Phoenix Convertible Fund
Phoenix Growth Fund
Phoenix Multi–Capital Appreciation
Phoenix Stock Fund
Phoenix Total Return
Pilgrim Group 10100 Santa Monica Boulevard 21st Floor Los Angeles, CA 90067-4112 (800) 336-3436
Pilgrim GNMA Fund
Pilgrim MagnaCap Fund
Pilgrim S-T Multi-Market Income
Pioneer Group PO Box 9014 Boston, MA 02205-9014 (800) 225-6292
Pioneer Fund
Pioneer II
Pioneer Three
Piper Capital Management Piper Jaffray Tower 222 South Ninth Street Minneapolis, MN 55402 (800) 333-6000
Piper Jaffray Emerging Growth Fund
Piper Jaffray Value Fund

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nd	Type
owe Price Associates	
East Pratt Street	
timore, MD 21202	
0) 638-5660	
Rowe Price Capital Appreciation	ST
Rowe Price Equity Income Fund	ST
Rowe Price GNMA Fund	BD
Rowe Price Growth & Income	ST
Rowe Price Growth Stock Fund	ST
Rowe Price High Yield Fund	JU
Rowe Price Intl Bond	GB
Rowe Price Intl Discovery	FS
Rowe Price Intl European Stock	FS
Rowe Price Intl Stock	FS
Rowe Price Maryland T-F Bond	MU
Rowe Price New America Growth	ST
Rowe Price New Era Fund	ST
Rowe Price New Horizons Fund	ST
Rowe Price New Income Fund	BD
Rowe Price Science & Technology	ST
Rowe Price Short-Term Bond Fund	BD
Rowe Price Small-Cap Value Fund	ST
Rowe Price Spectrum Fund Growth	ST
Rowe Price Tax-Free High Yield	MU
Rowe Price Tax-Free Income Fund	MU
Rowe Price Tax-Free Short-Inter	MU
Primary Trend Fund	
First Financial Centre-4th Floor	
700 North Water Street	
Milwaukee, WI 53207	
(800) 443-6544	
Primary Trend Fund	ST
Princor Financial Services Corp	
The Principal Financial Group	
Des Moines, IA 50392-0200	
(800) 247-4123	
Princor Capital Accumulation Fund	ST
Princor Growth Fund	ST
ProvidentMutual Financial Services	
PO Box 15627	
Christiana Executive Campus	
Wilmington, DE 19850	
(800) 441-9490	
ProvidentMutual Growth Fund	ST
ProvidentMutual Investment Shares	ST
ProvidentMutual Total Return Trust	BA
Prudential Securities	
One Seaport Plaza	
New York, NY 10292	
(212) 214-3332* (local); (800) 225-1852	
Nicholas-Applegate Growth Equity	ST
Prudential California Municipal	MU
Prudential Equity Fund	ST

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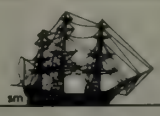

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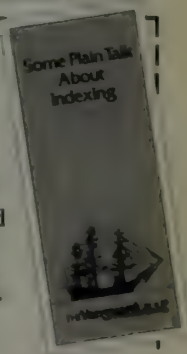

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THE Vanguard GROUP OF INVESTMENT COMPANIES

Fund	Type
Prudential FlexiFund–Conservative	ST
Prudential FlexiFund–Strategy	ST
Prudential Global Fund	GS
Prudential Global Genesis	GS
Prudential Global Nat Resources	GS
Prudential GNMA Fund	BD
Prudential Government Plus	BD
Prudential Govt Secs–Intermed	BD
Prudential Growth Opportunity	ST
Prudential High Yield Fund	JU
Prudential IncomeVertible Plus	BA
Prudential Multi-Sector Fund	ST
Prudential Muni Bond–High Yield	MU
Prudential Muni Bond–Insured	MU
Prudential Muni–New Jersey	MU
Prudential Muni–New York	MU
Prudential Muni–Pennsylvania	MU
Prudential National Municipals	MU
Prudential Option Growth Fund	ST
Prudential Research Fund	ST
Prudential Strategic Income	BD
Prudential Structured Maturity	BD
Prudential US Government	BD
Prudential Utility Fund	ST
Putnam Financial Services PO Box 2701 Boston, MA 02208 (800) 225-1581	
Putnam Calif Tax-Exempt Income	MU
Putnam Convertible Income-Growth	BA
Putnam Diversified Income Trust	BD
Putnam Energy-Resources Trust	ST
Putnam Federal Income Trust	BD
Putnam Fund for Growth & Income	ST
George Putnam Fund of Boston	BA
Putnam Global Governmental Income	GB
Putnam Global Growth Fund	GS
Putnam Health Sciences Trust	ST
Putnam High Income Government	BD
Putnam High Yield Trust	JU
Putnam High Yield Trust II	JU
Putnam Income Fund	BD
Putnam Information Sciences Trust	ST
Putnam Investors Fund	ST
Putnam New York Tax-Exempt Income	MU
Putnam Ohio Tax-Exempt Income	MU
Putnam Option Income Trust II	ST
Putnam OTC Emerging Growth Fund	ST
Putnam Strategic Income Trust	ST
Putnam Tax-Exempt Income Fund	MU
Putnam Tax-Free High Income	MU
Putnam Tax-Free Income–High Yield	MU
Putnam Tax-Free Income–Insured	MU
Putnam US Govt Income Trust	BD
Putnam Vista Fund	ST
Putnam Voyager Fund	ST

Fund	Type
Quest Distributors 1414 Avenue of the Americas New York, NY 10019 (800) 221-4268	
Royce Fund–Equity Income	ST
Royce Fund–Value	ST
Quest for Value 200 Liberty Street World Financial Center, 37th Floor New York, NY 10281 (800) 232-3863	
Quest for Value Fund	ST
James B Rea 10966 Chalon Road Los Angeles, CA 90077 (800) 433-1998	
Rea-Graham Balanced Fund	BA
Reich & Tang LP 100 Park Avenue 28th Floor New York, NY 10017 (800) 221-3079	
Reich & Tang Equity Fund	ST
Robertson, Stephens & Co One Embarcadero Center Suite 3100 San Francisco, CA 94111 (800) 766-3863	
Robertson Stephens Emerging Growth	ST
Rochester Fund Distributors 70 Linden Oaks Rochester, NY 14625 (716) 383-1300*	
Rochester Fund Municipals	MU
Rodney Square Funds 1300 North Market Street Suite 700 Wilmington, DE 19801 (800) 553-9308	
Rodney Square International Equity	FS
Rodney Square Multi-Mngr–Growth	ST
Ruane, Cunniff & Co 1370 Avenue of the Americas New York, NY 10019 (212) 245-4500	
Sequoia Fund	ST
Rushmore Group 4922 Fairmont Avenue Bethesda, MD 20814 (800) 343-3355	
American Gas Index Fund	ST
Rushmore–Nova	ST

Fund	Type
Safeco Securities PO Box 35890 Seattle, WA 98124-1890 (800) 624-5711	
Safeco Equity Fund	S
Safeco Growth Fund	S
Safeco Income Fund	S
Safeco Municipal Bond Fund	M
Salomon Brothers Asset Management 7 World Trade Center 38th Floor New York, NY 10048 (800) 725-6666	
Salomon Brothers Capital Fund	S
Salomon Brothers Investors Fund	S
Salomon Brothers Opportunity Fund	S
SBSF Funds 45 Rockefeller Plaza 33rd Floor New York, NY 10111 (800) 422-7273	
SBSF–Growth Fund	S
Charles Schwab 101 Montgomery Street Schwab Building San Francisco, CA 94104 (800) 526-8600	
Schwab Money Funds–Tax-Exempt	MU
Scudder Investor Services 160 Federal Street Boston, MA 02110 (800) 225-2470	
AARP Growth–Capital Growth	S
AARP Growth–Growth & Income	S
AARP Income–GNMA & US Treas	BD
AARP Income–High Quality Bond	BD
AARP Insured T-F Inc–Genl Bond	MU
AARP Insured T-F Inc–Short-Term	MU
Japan Fund	FS
Scudder California Tax-Free Fund	MU
Scudder Capital Growth Fund	ST
Scudder Cash Investment Trust	MM
Scudder Development Fund	ST
Scudder Global Fund	GS
Scudder GNMA Fund	BD
Scudder Gold Fund	GS
Scudder Growth & Income Fund	ST
Scudder High Yield Tax-Free Fund	MU
Scudder Income Fund	BD
Scudder International Bond Fund	GB
Scudder International Fund	FS
Scudder Managed Municipal Bonds	MU
Scudder Medium Term Tax-Free	MU
Scudder NY Tax-Free Fund	MU
Scudder Short Term Bond Fund	BD
Scudder Tax-Free Money Fund	MM

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American National Growth Fund	ST
American National Income Fund	ST
Security Distributors 700 Harrison Street Topeka, KS 66636 (800) 888-2461	
Security Action Fund	ST
Security Equity Fund	ST
Security Investment Fund	ST
Security Ultra Fund	ST
SEI Corp 680 East Swedesford Road Building 7 Wayne, PA 19087 (215) 254-1000	
Helmsman–Disciplined Equity	ST
Helmsman–Growth Equity	ST
Helmsman–Income Equity	ST
Helmsman–Income Fund	BD
Seligman Marketing 130 Liberty Street New York, NY 10006 (800) 221-2783	
Seligman Capital Fund	ST
Seligman Common Stock Fund	ST
Seligman Communications & Info	ST
Seligman Growth Fund	ST
Seligman Income Fund	BA
Seligman Tax-Exempt–Mass	MU
Seligman Tax-Exempt–Michigan	MU
Seligman Tax-Exempt–Minnesota	MU
Seligman Tax-Exempt–National	MU
Seligman Tax-Exempt–Ohio	MU
Sentry Equity Services 1800 North Point Drive C3/42 Stevens Point, WI 54481 (800) 533-7827	
Sentry Fund	ST

Fund	Type
Shearson Lehman Brothers 388 Greenwich Street New York, NY 10013 (212) 564-8068	
Shearson Aggressive Growth	S
Shearson Appreciation Fund	S
Shearson California Municipals	M
Shearson Equity–Growth & Oppor	S
Shearson Equity–International	F
Shearson Equity–Sector Analysis	S
Shearson Equity–Strategic Investors	S
Shearson Fundamental Value Fund	S
Shearson Global Opportunities	G
Shearson High Yield Fund	J
Shearson Income–Divers Strategic	B
Shearson Income–Global Bond	G
Shearson Income–High Income	J
Shearson Income–Mortgage	B
Shearson Income–Option Income	S
Shearson Income–Tax-Exempt Income	M
Shearson Income–Utilities	M
Shearson Invest–Directions Value	S
Shearson Invest–European	S
Shearson Invest–Govt Securities	B
Shearson Invest–Growth	S
Shearson Invest–Invest Grade Bond	B
Shearson Invest–Precious Metals	G
Shearson Invest–Special Equities	S
Shearson Managed Governments	B
Shearson Managed Municipals	M
Shearson Multiple Opportunities	S
Shearson New York Municipals	M
Shearson 1990s Fund	S
Shearson Principal Return	B
Shearson Short-Term World Income	G
Shearson Small Capitalization	S
Shearson Telecommunications–Growth	S
Sheffield Investments 41 Madison Avenue New York, NY 10010 (800) 922-7771	
Blanchard Precious Metals Fund	GS
Blanchard Strategic Growth	GS
Signature Financial Group 6 Saint James Avenue 9th Floor Boston, MA 02116 (617) 423-0800*	
FundTrust–Growth & Income	BA
Sit Investment Associates 90 South Seventh Street Suite 4600 Minneapolis, MN 55402 (800) 332-5580	
Sit New Beginning Growth Fund	ST

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d	Type
th Barney, Harris Upham & Co	
Sixth Avenue	
York, NY 10105	
544-7835	
ional Liquid Reserves–Cash	MM
ional Liquid Reserves–Retirement	MM
th Barney Equity Fund	ST
ith Barney–Income & Growth	ST
ith Barney–US Government	BD
ith Barney Muni Bond–California	MU
ith Barney Muni Bond–National	MU
-Free Money Fund	MM
ntage Money Market–Cash	MM
Gen Securities Corp	
Rockefeller Plaza	
York, NY 10020	
0) 334-2143	
Gen International Fund	ST
und Shore Fund	
Box 1810	
nwich, CT 06836	
03) 629-1980*	
und Shore Fund	ST
outheastern Asset Management	
0 Ridgelake Boulevard	
ite 301	
emphis, TN 38120	
00) 445-9469	
AM Small Cap Fund	ST
AM Value Trust	ST
overeign Advisers	
85 Old Eagle School Road	
ite 515A	
Wayne, PA 19087	
215) 254-0703*	
Sovereign Investors	ST
State Bond Sales Corp	
8400 Normandale Lake Boulevard	
Suite 1100	
Minneapolis, MN 55437	
(800) 328-4735	
State Bond Common Stock Fund	ST
State Bond Diversified Fund	ST
Stein Roe & Farnham	
PO Box 1131	
Chicago, IL 60690	
(800) 338-2550	
SteinRoe Capital Opportunities	ST
SteinRoe High Yield Municipals	MU
SteinRoe Intermediate Bond Fund	BD
SteinRoe Intermediate Municipals	MU
SteinRoe Managed Municipals	MU
SteinRoe Special Fund	ST
SteinRoe Stock Fund	ST
SteinRoe Tax-Exempt Money Fund	MM
SteinRoe Total Return Fund	BA

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Call 1-800-522-5555 For a Free Information Kit.

*Source: Variable Annuity Research and Data Services (VARDS®)

Please send me a free Vanguard Variable Annuity Plan Information Kit including prospectuses that contain more complete information on advisory fees, distribution charges, and other expenses. I will read both prospectuses carefully before I invest or send money.

Vanguard Variable Annuity Plan
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THE Vanguard GROUP OF INVESTMENT COMPANIES

The Vanguard Variable Annuity Plan, a flexible premium, multi-funded, variable annuity, is issued by National Home Life Assurance Company, a member of the Capital Holding family, Valley Forge, PA. This plan is not currently available in all states.

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Fund	Type
Stonebridge Capital 1801 Century Park East Suite 1800 Los Angeles, CA 90067 (213) 277-1450*	
National Industries Fund	ST
Strategic Distributors 2030 Royal Lane Dallas, TX 75229 (800) 527-5027	
Strategic Investments Fund	FS
Stratton Management 610 West Germantown Pike Suite 361 Plymouth Meeting, PA 19462 (800) 634-5726	
Stratton Monthly Dividend Shares	ST
Strong/Corneliuson Capital Management PO Box 2936 Milwaukee, WI 53201-2936 (800) 368-3863	
Strong Advantage Fund	BD
Strong Discovery Fund	ST
Strong Investment Fund	BA
Strong Municipal Money Market	MM
Strong Opportunity Fund	ST
Strong Total Return Fund	BA
SunAmerica Asset Management 10 Union Square East New York, NY 11003 (800) 858-8850	
Home Investors Government Income	BD
SunAmerica Balanced Assets Fund	BA
SunAmerica Capital Appreciation	ST
SunAmerica Multi-Asset–Total Return	BA
SunAmerica Equity–Aggressive Growth	ST
SunAmerica Equity–Growth	ST
SunAmerica Equity–US Government Secs	BD
Sunstone 207 East Buffalo Street Suite 315 Milwaukee, WI 53202 (414) 271-5885*	
Portico–Equity Index Fund	ST
Portico–Income & Growth Fund	ST
Portico–Money Market Fund	MM
Portico–Special Growth Fund	ST
TBC Funds Distributor 103 Bellevue Parkway Wilmington, DE 19809 (302) 792-6400 (local); (800) 441-7379	
HT Insight–Equity Fund	ST
Pierpont Capital Appreciation Fund	ST
Pierpont Equity Fund	ST
Pierpont Tax-Exempt Bond Fund	MU

Fund	Type
Templeton Funds Distributors PO Box 33030 St Petersburg, FL 33733-8030 (813) 823-8712 (local) ; (800) 237-0738	
Templeton Foreign Fund	FS
Templeton Global Opportunities	GS
Templeton Growth Fund	GS
Templeton Income Fund	GS
Templeton Real Estate Securities	GS
Templeton Smaller Companies Growth	GS
Templeton Value Fund	GS
Templeton World Fund	GS
Thomson McKinnon Investor Services One Station Place Stamford, CT 06902 (203) 352-4900 (local) ; (800) 628-1237	
Thomson Fund–Global	GS
Thomson Fund–Growth	ST
Thomson Fund–Income	BD
Thomson Fund–Opportunity	ST
Thomson Fund–US Government	BD
Thornburg Securities 119 East Marcy Street Suite 202 Santa Fe, NM 87501 (505) 984-0200 (local); (800) 847-0200	
Limited Term Municipal–National	MU
TNE Fund Group 399 Boylston Street Boston, MA 02116 (800) 343-7104	
CGM Capital Development Fund	ST
CGM Mutual Fund	BA
ITB–Growth Opportunities	ST
ITB–Premium Income	BD
New England Balanced Fund	ST
New England Cash Mgmt–MM	MM
New England Government Securities	BD
New England Growth Fund	ST
New England Retirement Equity	ST
New England Tax-Exempt Income	MU
Transamerica 1000 Louisiana Suite 6200 Houston, TX 77002-5098 (800) 343-6840	
Transamerica California Tax-Free Inc	MU
Transamerica Capital Appreciation	ST
Transamerica Govt Securities	BD
Transamerica Growth & Income	BA
Transamerica Special Emerging Grow	ST
Transamerica Special Govt Income	BD
Transamerica Sunbelt Growth Fund	ST

Fund	Typ
Trusteed Funds One Winthrop Square Boston, MA 02110 (800) 462-1199 (local) ; (800) 343-2902	
Commonwealth Investment–Balanced	B
Twentieth Century Investors PO Box 419200 Kansas City, MO 64141-6200 (816) 531-5575 (local); (800) 345-2021	
20th Century Balanced Investors	B
20th Century Giftrust Investors	S
20th Century Growth Investors	S
20th Century Heritage Investors	S
20th Century Select Investors	S
20th Century Ultra Investors	S
20th Century US Governments	BD
20th Century Vista Investors	S
United Services Advisors PO Box 29467 San Antonio, TX 78229-0467 (512) 696-1234 (local); (800) 873-8637	
United Services–Global Resources	GS
United Services–Gold Shares	FS
United Services–World Gold Fund	GS
US Boston Investment Lincoln North Lincoln, MA 01773 (617) 259-1144 (local) ; (800) 872-7866	
US Boston Inv–Growth & Income	ST
USAA Investment Management Co USAA Building 9800 Fredericksburg Road San Antonio, TX 78288 (512) 498-4499 (local); (800) 531-8181	
USAA Investment–Balanced	BA
USAA Investment–Cornerstone Fund	GS
USAA Investment–Gold Fund	FS
USAA Investment–International	FS
USAA Mutual–Aggressive Growth	ST
USAA Mutual–Growth Fund	ST
USAA Mutual–Income Fund	BD
USAA Mutual–Income Stock Fund	ST
USAA Mutual–Money Market	MM
USAA Tax-Exempt–California Bond	MU
USAA Tax-Exempt–California MM	MM
USAA Tax-Exempt–High Yield	MU
USAA Tax-Exempt–Intermediate	MU
USAA Tax-Exempt–Money Market	MM
USAA Tax-Exempt–Short-Term	MU

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nd	Type
SF&G Investment Services	
0 Light Street	
ltimore, MD 21202	
01) 625-5698 (local) ; (800) 323-8734	
e-Houghton Fund B	BA
e-Houghton Growth Fund	ST
uropean Emerging Companies Fund	FS
ver-the-Counter Securities Fund	ST
ST Securities	
o Concord Financial Group	
63 Girard Avenue, Suite 306	
Jolla, CA 92037	
00) 233-1136	
ST Master Funds–Equity	ST
ST Master Funds–Govt Money	MM
ST Master Funds–International	FS
ST Master Tax-Exempt–Intermediate	MU
ST Master Tax-Exempt–Short-Term	MM
alue Line Securities	
11 Third Avenue	
ew York, NY 10017	
800) 223-0818	
alue Line Convertible Fund	ST
alue Line Fund	ST
alue Line Income Fund	ST
alue Line Leveraged Growth Inv	ST
alue Line Special Situations Fund	ST
alue Line Tax-Exempt–High Yield	MU
alue Line US Government Secs	BD
Van Eck Securities Corp	
22 East 42nd Street	
42nd Floor	
New York, NY 10168	
(212) 687-5200* (local) ; (800) 221-2220	
Van Eck Gold/Resources Fund	GS
Van Eck International Investors	FS
Van Eck World Income Fund	GB
Van Eck World Trends Fund	GS
Van Kampen Merritt	
1001 Warrenville Road	
Lisle, IL 60532	
(708) 719-6000 (local); (800) 225-2222	

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Forbes Capitalist Tool

Fund	Type
Van Kampen Merritt Growth & Inc	ST
Van Kampen Merritt High Yield	JU
Van Kampen Merritt Insured T-F	MU
Van Kampen Merritt Prime Rate Inc	BD
Van Kampen Merritt T-F Hi Income	MU
Van Kampen Merritt US Government	BD
Vanguard Group of Investment Cos PO Box 2600 MS 136 Valley Forge, PA 19482 (215) 648-6000* (local); (800) 662-7447	
Vanguard Asset Allocation	BA
Vanguard Bond Market Fund	BD
Vanguard California T-F–Ins L-T	MU
Vanguard California T-F–MM	MM
Vanguard Convertible Securities	BA
Vanguard Equity Income Fund	ST
Vanguard Explorer Fund	ST
Vanguard Fixed Income–GNMA	BD
Vanguard Fixed Income–High Yield	JU
Vanguard Fixed Income–Invest Grade	BD
Vanguard Fixed Income–Short-Term	BD
Vanguard Fixed Income–S-T Govt Bond	BD
Vanguard Fixed Income–US Treasury	BD
Vanguard Index–500 Portfolio	ST
Vanguard Index–Extended Market	ST
Vanguard Intl Equity Index–Europe	FS
Vanguard Intl Equity Index–Pacific	FS
Vanguard MM Reserves–Federal	MM
Vanguard MM Reserves–Prime	MM
Vanguard MM Reserves–US Treas	MM
Vanguard/Morgan Growth Fund	ST
Vanguard Muni Bond–High Yield	MU
Vanguard Muni Bond–Insured L-T	MU
Vanguard Muni Bond–Intermediate	MU
Vanguard Muni Bond–Limited Term	MU
Vanguard Muni Bond–Long-Term	MU
Vanguard Muni Bond–Money Market	MM
Vanguard Muni Bond–Short-Term	MU
Vanguard NJ Tax-Free–Insured L-T	MU
Vanguard NJ Tax-Free–MM	MM
Vanguard New York Insured Tax-Free	MU
Vanguard Penn Tax-Free–Insured L-T	MU
Vanguard Penn Tax-Free–MM	MM
Vanguard Primecap Fund	ST
Vanguard Quantitative Portfolios	ST
Vanguard Small Cap Stock	ST
Vanguard Special–Energy	ST
Vanguard Special–Gold & Prec	FS
Vanguard Special–Health Care	ST
Vanguard STAR Fund	BA
Vanguard Trustees Commingled–Intl	FS
Vanguard Trustees Commingled–US	ST
Vanguard Wellesley Income Fund	BA
Vanguard Wellington Fund	BA
Vanguard Windsor Fund	ST
Vanguard Windsor II	ST
Vanguard World–Intl Growth	GS
Vanguard World–US Growth	GS

Fund	Type
Venture Advisers PO Box 1688 Santa Fe, NM 87504-1688 (505) 983-4335 (local); (800) 279-0279	
New York Venture Fund	ST
RPF of America–Equity Fund	ST
Vista Mutual Funds Chase Service Center PO Box 419392 Kansas City, MO 64179 (800) 348-4782	
Vista Growth & Income Fund	ST
Voyageur Fund Distributor 100 South Fifth Street Suite 2200 Minneapolis, MN 55402 (800) 553-2143	
Voyageur Minnesota Tax-Free Fund	MU
Waddell & Reed 6300 Lamar Avenue PO Box 29217 Shawnee Mission, KS 66201 (913) 236-2000 (local) ; (800) 366-5465	
United Accumulative Fund	ST
United Bond Fund	BD
United Continental Income Fund	BA
United Gold & Government Fund	FS
United Government Securities	BD
United High Income Fund	JU
United High Income Fund II	JU
United Income Fund	ST
United International Growth	FS
United Municipal Bond Fund	MU
United Municipal High Income	MU
United New Concepts Fund	ST
United Retirement Shares	BA
United Science & Energy Fund	ST
United Vanguard Fund	ST
Washington Funds Distributors 1101 Vermont Avenue NW Washington, DC 20005 (202) 842-5300 (local); (800) 972-9274	
Growth Fund of Washington	ST
Weiss, Peck & Greer One New York Plaza New York, NY 10004 (800) 223-3332	
WPG Government Securities Fund	BD
WPG Growth & Income Fund	ST
WPG Tudor Fund	ST

Fund	Type
Weitz Securities 9290 West Dodge Road Suite 405 Omaha, NE 68114-3323 (402) 391-1980*	
Weitz Series Fund–Value	ST
Westcore Funds 600 Seventeenth Street Suite 1605 South Denver, CO 80202 (303) 595-9156 (local); (800) 666-0367	
Westcore–Basic Value Fund	ST
Westcore–MIDCO Growth Fund	ST
Westcore–Modern Value Equity	ST
Wheat First Securities PO Box 1357 Richmond, VA 23211 (800) 472-0090	
Southeastern Growth Fund	ST
Winsbury Co 1900 East Dublin-Granville Road Columbus, OH 43229 (800) 451-8377	
ASO Outlook Group Equity Fund	ST
Emblem–Earnings Momentum Equity	ST
Emblem–Relative Value Equity Port	ST
HighMark Income Equity Fund	ST
Parkstone Bond Fund	BD
Parkstone Equity Fund	ST
Parkstone High Income Equity	ST
Parkstone Intermediate Govt Oblig	BD
Parkstone Prime Obligations	MM
Parkstone Small Cap Value	ST
Parkstone Tax-Free Fund	MM
Wood Logan 1455 East Putnam Avenue Old Greenwich, CT 06870 (800) 334-0575	
NA Security–Moderate Asset Alloc	BA
Yamaichi Global Fund Two World Trade Center Suite 9828 New York, NY 10048 (212) 466-6805 (local); (800) 257-0228	
Yamaichi Global Fund	GS
Zweig Securities 5 Hanover Square 17th Floor New York, NY 10004 (800) 272-2700	
Zweig Series–Priority Selection	ST

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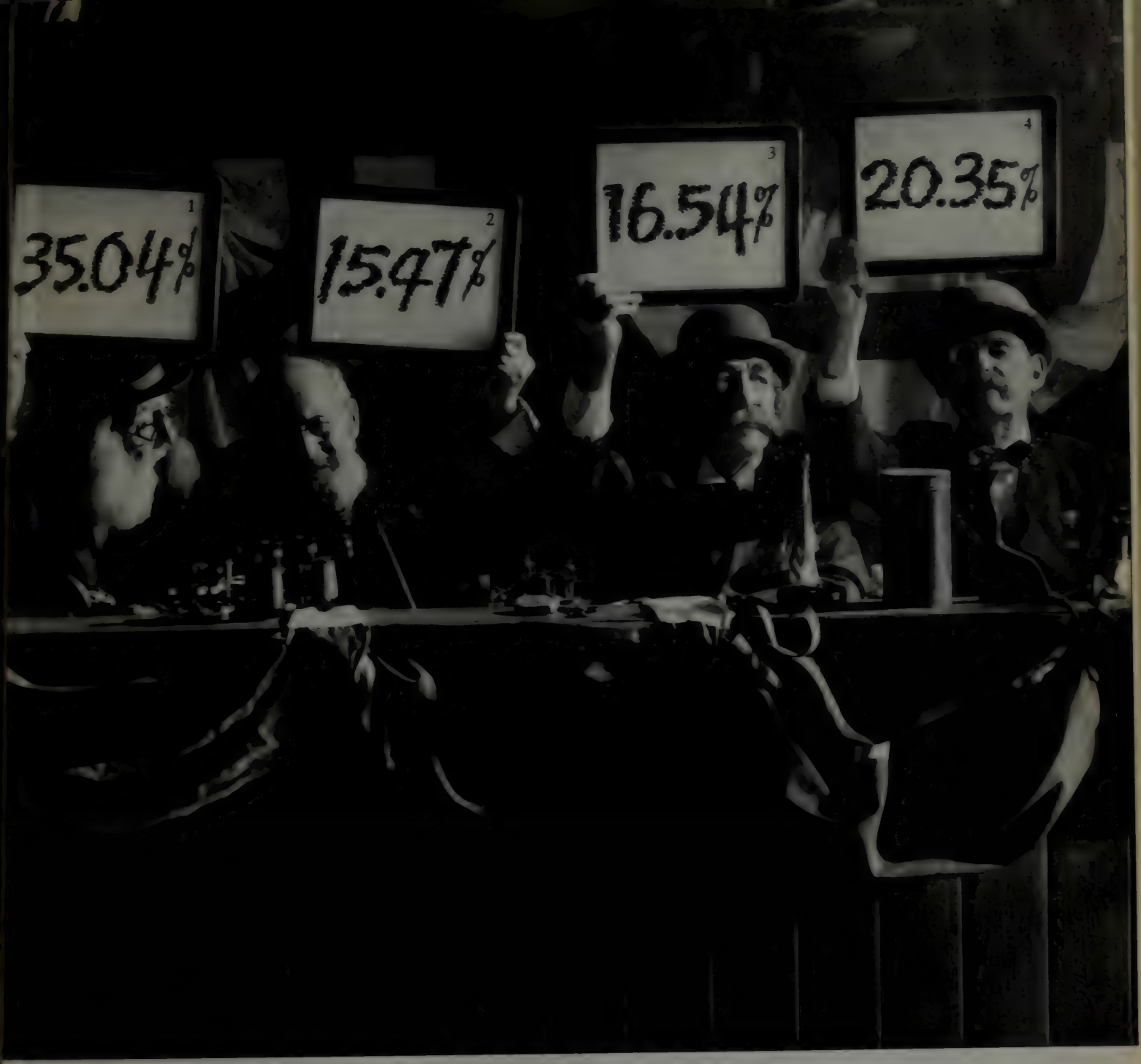

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Kemper Growth Fund Total Return

[1] Year-to-date total return through 7/31/91: 35.04%

[2] Average annual total return for the 10-year period ended 7/31/91: 15.47%

[3] Average annual total return for the 5-year period ended 7/31/91: 16.54%

[4] Average annual total return for the 1-year period ended 7/31/91: 20.35%

The Fund's returns are based on historical results and are not necessarily representative of future performance. Returns and net asset value will fluctuate. Shares are redeemable on any business day at the then current net asset value, which may be more or less than original cost.

Average annual total return and total return are each a measure of the net investment income and realized and unrealized capital gain or loss from the Fund's investments over the periods specified, assuming reinvestment of all dividends and, for average annual total return only, adjustment for the maximum sales charge of 5.75%. Average annual total return is the average annualized change over the 1-, 5-, and 10-year periods ended 7/31/91. Total return is a measure of the aggregate change over the period 1/1/91 through 7/31/91. Total return for the 1-year period ended 7/31/91 is 27.69%. During these periods, securities prices fluctuated.

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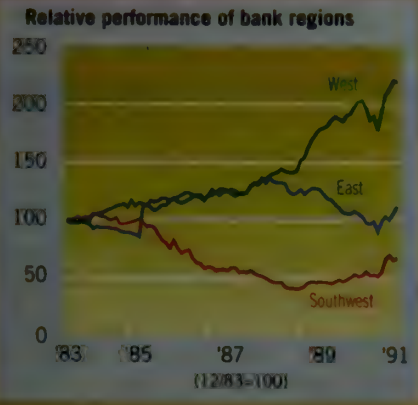
BY ERIC S. HARDY

The apparent end of the recession should prolong investor interest in small-capitalization stocks. Historically, many groups of small-capitalization stocks have beaten the overall market at the beginning of a recovery.

Small caps have raced ahead of blue chips so far this year, to be sure, but then they had a lot of catching up to do. So Prudential Securities' director of small-cap research, Claudia Mott, says there is room left for gains among companies with market values under $500 million. Mott's picks include RasterOps, which makes graphic design equipment, home-builder PHM Corp. and First Tennessee National Corp., a $7 billion (assets) bank holding company. "They're all selling below the S&P earnings multiple [currently 18] and they had positive earnings surprises for the latest quarter," Mott says. "Also, their earnings are expected to increase by at least 10% this year and in 1992."

Special focus

A weighted portfolio of 150 leading U.S. bank stocks lagged the market by almost 8 percentage points a year since 1986. But since November of last year the total return on these banks was 22% better than the S&P 500. The recovery first started with western banks, but Barra, which has a computer model that attempts to isolate the regional effect from other factors in bank stock performance, reports that regional differences may be narrowing. Chase Manhattan and J.P. Morgan, for instance, recently reported better than expected earnings.



The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	1.6%	14.5%	-0.4%
Sharpe/Barra Growth index[1]	1.2	23.4	0.0
Sharpe/Barra Value index[2]	3.3	11.1	-0.4
Dow Jones industrials	1.1	9.2	-0.7
S&P 500	2.2	14.5	-0.3
NYSE	2.1	14.5	0.0
Nasdaq	3.9	23.3	-0.4
Amex	0.4	7.4	-1.0
EAFE[3]	-0.6	-11.0	-22.9
CRB index[4,5]	0.7	-10.3	-22.7
Gold[5]	-1.8	-3.0	-28.7
Yen[5]	-1.9	-9.4	-16.9
Oil[5]	0.7	6.4	-47.5

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
North American Vaccine	14 7/8	72%	NA	Utiliz	9 3/8	-32%	$0.86
ICOS	16 3/8	64	NA	CIS Technologies	5	-31	0.05
Compression Labs	19 1/2	36	$0.55	DSC Communications	4	-27	0.65
WMS Industries	14 7/8	31	NA	Jones Medical Industries	7 7/8	-25	0.44
Teradata	18 3/4	30	0.01	Convex Computer	10 3/4	-24	0.21

The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Real estate	1.0%	30.8%	Air transport	-5.5%	16.1%
Leisure, luxury	8.6	31.8	Precious metals	-4.0	-15.1
Thrift institutions	8.5	19.6	Aluminum	-3.1	9.2
Water transport	6.4	24.9	Coal, uranium	-2.5	-9.5
Cosmetics	5.3	27.2	Motor vehicles	-1.8	22.2

Note: Data for period ending 8/8/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of a portfolio of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from Lynch, Jones & Ryan. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

BY WARREN MIDGETT

The biggest new issues[1]

Company/business	Exchange	Offer date	Offer price	Recent price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Duracell Intl/batteries	n	5/1/91	15	22	366	Merrill Lynch	47%	150
Intl Specialty Products/specialty chemicals	n	6/24/91	15½	15½	217	Merrill Lynch	0	100
AnnTaylor Stores/women's apparel	n	5/16/91	26	28⅞	127	Merrill Lynch	11	111
Haemonetics/blood processing equip	n	5/9/91	22	25	106	First Boston	14	117
Regeneron Pharmaceuticals/pharmaceuticals	o	4/2/91	22	11⅛	99	Merrill Lynch	–49	52
BWIP Holding/fluid transfer & control sys	o	5/23/91	14	14½	93	Goldman, Sachs	0	101
Vigoro/fertilizer	n	5/20/91	14½	15¾	93	Merrill Lynch	13	113
AES/air-conditioning svcs	o	6/25/91	19	20⅜	91	DLJ	7	107
Caldor/discount stores	o	4/24/91	21	20⅞	87	Kidder, Peabody	–1	103
Carlisle Plastics/plastic prods	n	5/15/91	11	9⅛	74	First Boston	–17	82

Performance update

Is the new issues market getting overheated? By one measure, volume, it is. Securities Data Co. of Newark, N.J. reports that in the second quarter of 1991 there were 88 new corporate issues that had $5 million or more in market capitalization and an offering price of at least $2.50 a share. In the year-earlier quarter there were only 49 such new issues.

But this market differs in one important respect from 1983's bubbly market: The parade of first-time issuers is led by a number of established companies. For example, Duracell International, AnnTaylor Stores and Caldor offered new stock last quarter. Recent offerings include Enquirer/Star Group, which publishes tabloid newspapers, and Ronald Perelman's Marvel Entertainment Group, which is famous for Spiderman, Captain America and other comic heroes.

The spurt of offerings could end as quickly as it began. "[Initial public offerings] are like the flu," says Mark Basch, assistant vice president at Securities Data. "Once they catch on, they run their course, and after that there are only scattered cases until the next season starts." Basch thinks the large number of established companies going public is a sign of economic recovery rather than of an overheated new issues market.

The best new issues[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Medimmune/biological prods	9¼	23	Morgan Stanley	92%	196
Danek Group/surgical prods	15	27	Smith Barney, Harris	80	180
AutoZone/auto parts	23	60	Goldman, Sachs	47	147
Quantum Health Res/home health care	12	30	Alex Brown & Sons	58	160
Duracell Intl/batteries	15	366	Merrill Lynch	47	150

The worst new issues[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Regeneron Pharm/pharmaceuticals	22	99	Merrill Lynch	–49%	52
Cephalon/therapeutic prods	18	59	Hambrecht & Quist	–38	54
Sport Supply Group/sporting goods	9½	24	PaineWebber	–34	67
OW Office Warehouse/office furniture	14½	29	DLJ	–33	67
FA Tucker Group/electrical svcs	6	8	First Albany	–29	71

The most active investment bankers[3]

Underwriter	Total offerings	Total raised ($mil)
Goldman, Sachs	8	$1,262
Merrill Lynch	9	1,054
First Boston	8	502
Alex Brown & Sons	13	405
Salomon Brothers	8	404

Industries going public[3]

Industry	Total offerings	Total raised ($mil)
Banks	2	$698
Chemicals	16	665
Electronics	8	522
Health services	16	484
Electric & gas	6	452

Note: Initial public offerings of common equities with offer date of 4/1/91 to 6/30/91, offering price of $2.50 or more and offering value of $5 million or more. Closed-end funds, limited partnerships, and ADRs (American Depositary Receipts) of corporations already traded in foreign countries are excluded, as are REITs and spinoffs. [1]Last quarter. [2]The ending value of $100 invested in the stock, divided by the ending value of $1 invested in the market. [3]Latest 12 months. Source: Securities Data Co.

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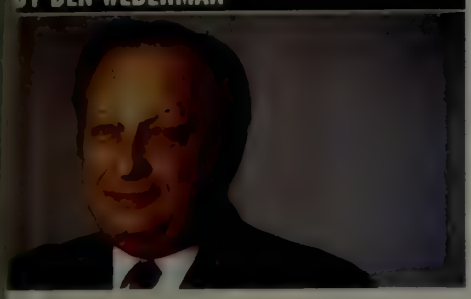
BY BEN WEBERMAN



en Weberman is a columnist r FORBES magazine.

THERE ARE a lot of bad credits in the irline industry, but there are good nes, too. The reputation of the hole group is tainted by failed Branffs and Easterns. Result: Some good elative bargains among bonds of uch strong carriers as American Airines, Delta and Southwest and their arent holding companies. A touch ower in credit quality is United Airlines, whose debt is priced even more attractively.

Unsecured senior debt issues of the top three airlines and their parent holding companies carry yields that are 1.2% to 1.5% over the rate of return on benchmark ten-year Treasury issues. The added return—the spread, if you will—could be wider than that for corporate bonds as a whole by 20 basis points.

The safest among these issues are in equipment trust certificates—bonds secured by specific pieces of equipment. These yield around ½% less than general airline obligations. Raymond E. Neidl, an industry analyst at Dillon, Read & Co., believes that obligations secured by aircraft pay handsomely given their relatively low risk. He especially likes United's 12½s of 1995, which yield 10% to maturity, and AMR's 9¾s of 2000, yielding 9.8%.

But be careful with equipment trusts. Check the terms of the covenant covering the equipment trust certificates to ascertain the strength of the pledge of the collateral. Make sure the equipment is worth considerably more than the amount of the loan it secures. Optimally, aircraft and engines have an appraised value at least 1.5 times the debt at the time of borrowing. Look, too, for covenants that permit creditors to repossess and resell quickly, within 60 days of default; such tight terms put pressure on borrowers not to default.

As an example, Eastern Air Lines had an issue with three tranches of secured equipment trust certificates. The 11¾s of 1993 have first-priority claim on funds received in settlement of aircraft sales. These still trade at a premium over par, selling at 122½ in early August. Bondholders will be paid from bankruptcy proceedings.

Eastern's second-priority certificates, the 12¾s of 1996, get their share of payments only after first-priority claims have been satisfied. These were recently trading at 62¼. The third-priority secured equipment trust certificates go to the end of the line; these, the 13¾s of 2001, recently traded for just 2½.

There are good buys among unsecured airline obligations, too. Consider AMR's $150 million of debt marketed in mid-July by Goldman, Sachs; it is rated Baa1 by Moody's and BBB+ by S&P. The 9.5% bonds due 1998 are noncallable and were priced to yield 140 basis points more than a like-maturity Treasury note. The bonds are currently priced at 101½.

For an issue with a longer due date, United Airlines a few days later sold $300 million of Baa2/BBB rated bonds through First Boston Corp. The bonds were priced at 99.134 for 10¼s due 2021, to yield 10.34% to maturity—185 basis points more than 30-year Treasurys.

Airline debt offers investors opportunities for tax-free income, too. Nancy Utterback, vice president of municipal research at Kidder, Peabody & Co., likes airport facilities' bonds backed by leases or other types of revenues from airline users of terminals. Interest on these is exempt from federal taxes and from taxes of the state of the issuer—but they are subject to the alternative minimum tax. These are issues created for the benefit of an airline using the terminal. Debt service of such issues is paid by the airline as rent on its lease, with the lease itself sometimes being part of the collateral.

American, for example, has more than $3 billion of special facility revenue bonds involving a dozen or so airports. These tax-free bonds are rated A3/BBB+, and two-thirds of the issues are also backed by an unconditional promise to pay by AMR, the airline's parent holding company. American special facility revenue bonds for Dallas/Fort Worth include A3/BBB-rated 7½s due 2025, offered to yield 7.56%.

Airport facility bonds of Delta are rated A3/A–. City of Atlanta special purpose facility bonds for Delta 7⁹⁄₁₀s of 2018 yield 7.3%.

One of the more interesting plays for investors among the special facility issues involves United Airlines bonds, says Utterback, because credits of United are still priced more generously than the others, even though credit quality is not substantially poorer. United special facility bonds involve Chicago O'Hare International Airport as well as Los Angeles regional airports. United 8.95s due 2015 for a Chicago O'Hare terminal yield 7.68%, paying more than either the American or Delta bonds. At the time these airport facility bonds were priced, the *Bond Buyer* revenue bond index of the yield on A-rated revenue bonds was 7.07%.

One bit of caution. All but older revenue bonds, those issued prior to the Tax Reform Act of 1986, are subject to the alternative minimum tax. These post-1986 bonds carry yields of around 20 basis points over non-AMT bonds.

For investors who don't have to worry about the alternative minimum tax, the newer, higher-yielding bonds are the better buy. ■

Will bank failures proliferate? If they do, the stock market will take the news in stride.

Who cares about bankers?

BY KENNETH L. FISHER

Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: *The Wall Street Waltz* and *Super Stocks*.

IF LOTS OF banks fail, stocks will go up. I don't expect lots of banks to fail, although I'm sure some will. The market will not mind in the least.

Why? Two reasons. The total cost of bank failures is less than most folks envision. For $50 billion of private sector losses, we can wipe out the ten biggest banks. For another $50 billion we could dust the next 150. Impact? Lose $100 billion and it's about one quarter's GNP growth or about the same as two Iraq wars—perhaps enough to cause a recession in our $5 trillion economy, but no more. Even that might be a modest price to pay to get the better class of banker that will emerge from any wave of failures. The current wave of bankers created their own stupid loans. Let them suffer from their own actions.

Today's major economic problem is that money is still far too tight, despite a series of minor loosening efforts by the Fed since last fall. If failures erupted, the Fed would loosen instantly and massively. I suspect Alan Greenspan knows he will need Bush's reelection to get reappointed and has been holding his holy powers back, waiting for the right political moment.

Some uptight people fear that a loosening by the Fed would unleash inflation, the dollar would fall, and the Fed would have to raise rates again to defend it. I disagree. There's too much excess capacity around, and easier money wouldn't drive up prices; it would simply cause the velocity of money, or turnover, to fall. The economy would pick up mildly and inflation would be mute.

Wouldn't a rash of bank failures put a huge damper on credit creation, thus rippling through the entire economy and hurting healthy banks as well as unhealthy ones? I doubt it. That is carryover thinking from the Great Depression days. Folks forget that the Fed consciously shrank the money supply by 30% from 1928 to 1932. That would kill credit today. But the central bankers will never make that mistake again. They will expand the money supply; the strongest banks will pick up the slack, pumping credit back into the economy.

Much has been written lately questioning how much the Federal Reserve is really in control of the country's financial system today. One bearish fellow points out that the Fed has cut the discount rate three times, but to little avail.

I disagree. The Fed has loosened some, but so far its actions are like a fever dropping from 105 degrees to 103—too little. The Fed could cut rates much more, with almost no inflationary impact. And if you get the cost of money down, there will be lots of borrowers.

The mere fact that so much ink has been spent on "impending" banking failures tells you that actual failures, should they come to pass, won't mo the market. The fear is already fu discounted. The thing that moves t market is surprise. And the big su prise is likely to be how little ba failures hurt overall.

While on the subject of failur consider one of mine. A year ago suggested *Seagate* (8—o-t-c) at 14 recommended it again last Dec. 24, about where it is now. In betwee Seagate fell to 5, rose to 20 and fell t again. The disk drive industry has be on a roller coaster ride, gettin whipped around this recession's i ventory cycle by far worse than expe ed sales among its customers, t computer firms. While Seagate h performed about in line with m leading computer peripheral stocks the same time period, that is no com fort to those who bought it on m suggestion. I apologize. But now?

Seagate is quite cheap and strong disk drives. The cycle will pick u eventually, and Seagate could be ov 30 in three to five years. Of cour there could be more bad news first, this is a stock for buying and holdin only for those with a fairly long tim frame and the psychology to ride ou downdrafts.

A couple of other stocks I like:

Toro (15) is lower than it was fiv years ago, yet it's almost twice as bi Dominant in the mower busines expect to see this cheap stock over 3 also before this market cycle end Ditto for *Valmont* (14—o-t-c). I average valuations are too cheap b about 50%. *Live Entertainment* (15 could be another stock that hits 30 b 1993. It scares observers because the can't tell if it will buy *Carolco* (8) o Carolco will buy it. Doesn't matter. should rise either way. ■

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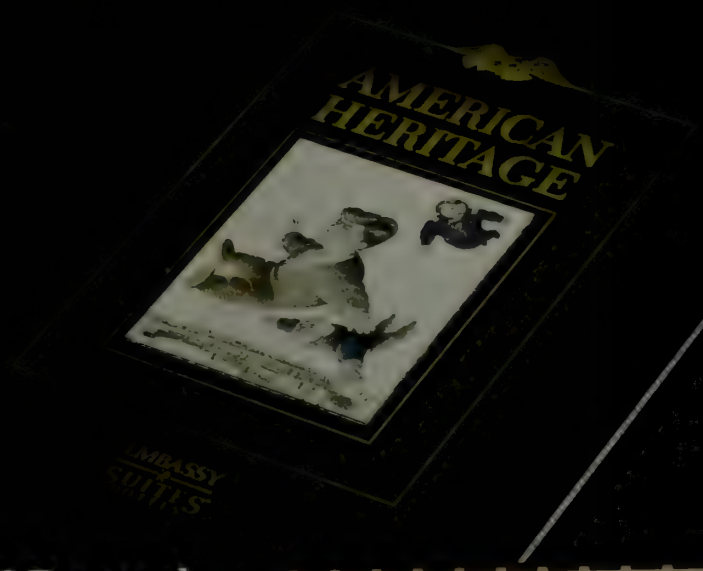

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Don't kid yourself that you can make money trading gold's short-term gyrations.

Fool's gold

BY MARK HULBERT

Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

ON A RADIO talk show I participated in recently, a number of the callers wanted to know how and when to get into the gold market. This after years when you scarcely heard a peep from the retail gold speculator. The reason is obvious: For the first time in years, gold mutual funds bettered every other category of funds for the second quarter. Goldbugs wasted no time in announcing the beginning of a new bull market: Bullish sentiment among the gold timers I track in the *Hulbert Financial Digest*, for example, increased dramatically. During the second quarter, in fact, their average recommended exposure to the gold market jumped from a net short 10% to a net long 50%.

Since the long-term performance of gold funds remains miserable, the appeal of trading gold is in the notion that you can catch a couple of good rallies while remaining out of that market most of the time. The notion is generally wrong. The gold market is always treacherous but doubly so if you go about it by switching into gold every time it starts to rise and then selling every time it starts to decline. It's a great way to lose on both your buys and your sells. Gold has a nasty habit of changing direction abruptly and with little warning.

Consider, for example, the consequences of following *Telephone Switch Newsletter*'s advice on when to hold gold. The editor, Richard Fabian, diligently tries to remove the subjective element from his calls. His mechanical strategy consists, with few modifications, of buying gold whenever the typical gold fund is above its average level of the previous 20 weeks and otherwise remaining in cash.

The results over the last six years? No better than buying and holding. From the beginning of 1985 to date, a portfolio that switched between gold bullion and Treasury bills on *Telephone Switch Newsletter*'s signals realized a compound annual return of between 2% and 3%—essentially equaling the return achieved by gold bullion itself and lagging well behind the return of a money market fund. The flurry of trading (20 switches) added nothing. And this doesn't even take into account the tax consequences of frequent trading, which would make the case for not trading even stronger.

The trend-following experience of another adviser has been even worse. The gold-timing model used by *Market Logic* follows trends in inflation rather than in gold itself—on the theory that gold should go up whenever the inflation rate is increasing, and vice versa. The model is bullish whenever the trailing 12-month inflation rate is greater than where it stood three months previously, and bearish otherwise. Since 1985 a strategy that switched between being long and short in gold bullion on *Market Logic*'s signals produced a compound annual loss of 9%.

The experiences of these two timers illustrate gold's basic trendlessness. That gold has increased over several weeks or months, for example, is no indication of a greater than normal probability it will go up over the next few weeks or months. This is a fund mental difference between the go and stock markets. Studies ha shown that the stock market over t intermediate and longer terms do move in meaningful trends, enabli well-designed, trend-following s tems to add at least some value. B this doesn't seem to be the case in t gold market.

A few letters that don't use a m chanical trend-following system time the gold market have do somewhat better over the last 5 years. Howard Ruff's *Ruff Times* h achieved an annual return of 10 James Moore's *Your Window In The Future*, 9%; and Ben Garside, 7 But I doubt they can continue th modestly winning ways, since th currently disagree with each other markedly. Moore is bearish, Ruff neutral and Garside is bullish.

Should the investor, therefore, ju forget about gold? Not at all. The remains a useful role for gold in yo portfolio: as an insurance policy. inflation jumps to 18%, it's a fair b that gold funds will do spectacular well while most stocks and bonds w be decimated. By putting 5% or 10 of your assets in gold funds, you w cushion that loss. But don't t switching into and out of gold on t basis of its short-term gyrations. Aft all, you don't try to time when to ow fire insurance for your house.

What's the best way to own gol Through shares in gold mining com panies, many of which pay a han some dividend yield, or through gold mutual fund. Currently, Lexin ton Gold is recommended by six the letters the *Hulbert Financi Digest* monitors, while several mo funds are each recommended by fo services: United Services Gold Share Benham Gold Equity Index, Fina cial Strategic Gold and Fidelity Sele American Gold. All but Fidelity's a no-load.

If you want to buy stocks of indivi ual mining companies for the lo haul, Homestake is currently bei recommended by eight servic among those I monitor. This is fo lowed by Hecla (recommended b seven services), Pegasus Gold (recom mended by six) and Coeur D'Ale and Newmont Mining (each recom mended by four services). ■

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In the 1970s most stocks sold for less than their private equity value; today the reverse is true. Time to remember what Warren Buffett did in 1969.

An irrational market

BY FREDERICK E. ROWE JR.

Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

IN THE 1970s successful investors bought stocks because they were cheap. In the 1980s successful investors bought stocks because they were cheap relative to market values for private companies.

But in 1991 successful investors bought stocks because they were going up. The year 1991 has been a mystery and a frustration to the successful value investors of the two preceding decades. Stocks are extremely expensive relative to all the traditional yardsticks: earnings, dividends, book value and private market value. Curiously, investors who cut their investment teeth and formed their ideas of how the stock market operates during the go-go markets of the late 1960s find themselves at ease with today's stock market.

It's a very different market from those of the 1970s and 1980s. With the demise of junk bond financing and the pullback of banks from highly leveraged transactions, market values for privately held companies have plunged. Two years ago, for example, quality private companies or companies being taken private traded at seven to nine times cash flow. Today similar companies trade at four to five times cash flow. But this is only half of the story. The so-called enterprise value of a company is the sum of its equity plus its debt. A typical private company might be capitalized with 50% debt and 50% equity.

Follow me carefully here. While enterprise values have fallen 30% to 40% because of smaller multiples of cash flow being paid, the value of the underlying equity has in many cases fallen more than 60%. That is astounding. Private equity is the same thing, conceptually, as public stock ownership. Thus, while the value of private equity has plunged, the value of public equity, i.e., stocks, has soared. The divergence in values is irrational and won't last. It is quite the reverse of the situation in the late 1970s, when private equity values far exceeded stock market valuations. Public companies and insiders who understand this irrational state of affairs are selling like mad.

It is my understanding that in the late 1960s publicly traded stock was considered a preferred medium of exchange to cold hard cash. Stocks, so the conventional wisdom had it, only go up in price, something that could not be said for cash. As stock became increasingly perceived as the ultimate financial asset, the disparity between value and market prices grew wider.

That patron saint of intrinsic value investing, Warren Buffett, unable to find value in the stock market in 1969, disbanded his investment partnership after 13 wonderfully successful years. To his partners he wrote:

"I am out of step with present conditions. When the game is no longer played your way, it is only human to say the new approach is all wrong, bound to lead to trouble a so on. . . . On one point, however, am clear. I will not abandon a pre ous approach whose logic I unde stand (although it may be difficult apply) even though it may mean f going large, and apparently ea profits, to embrace an approa which I don't fully understand, ha not practiced successfully, and wh possibly could lead to substantial p manent loss of capital."

Of course the go-go investme strategies of the late 1960s did end disaster—a five-year bear market th bottomed in the fall of 1974. That the time at which this author form his ideas of value and how the sto market operates. The 1969-74 be market was the worst since 1932.

I have a number of friends wh succeeded as investors in the l 1960s, and they are succeeding no The key to their success more than years ago was that they managed get out with most of their capi when the market turned down. Me investors were not so astute.

The name of the game most inv tors play is momentum and relat strength: Buy the strongest stocks a sell them after the have topped. C casionally I will ask one of my frien "How can a rational person pay times earnings and 10 times bo value for a growth company w dubious long-term prospects?" T reply: "How high is high? If a sto can sell at 60 times earnings, it can at 80 times or 100 times. I don't p judge anything. I don't look at called values, I look at price action they are going up, I buy them. An they turn down, I sell them."

It sounds simple and it is. The o difficulty is that the game has cau on and is being played by an unwie number of individuals and insti tions. An individual with a few th sand shares in each crazily valu position can get out, but an insti tion with hundreds of thousands shares in each position will not be fortunate. As fast as stock markets up, they always go down faster. A despite the many trading innovati that have recently been developed nevertheless remains difficult to pu the proverbial elephant through keyhole—when everyone wants to and there aren't many buyers.

'h e's money to be made in defaulted bonds. 3u don't jump in blindly.

Gold in garbage

B ATTHEW WINKLER

w Winkler is editor-in-chief ornberg Business News.

VENTIONAL WISDOM says interest- ng junk bonds should be lumped ne same category as bonds in ult. A defaulted bonds index pub- d by the Bond Investors Associa- in Miami Lakes, Fla. shows that ulted bonds reflect the same price es as any junk bond index.

ut in reality there are two quite rent markets here—and two e different sets of opportunities investors. Many junk bonds are ned apples on the verge of rotting. aulted bonds are rotting apples have already fallen to the ground, many of them will eventually get ed into a delicious pie.

hese aren't puny markets. Ac- ding to a directory from Bloom- g Financial Markets and the BIA, k bonds total about $372 billion, aulted bonds exceed $62 billion.

Vhy are the two markets so differ- ? Let's start with the Public Service New Hampshire 17.5% bonds due 04. Six months before they default- in December 1987, they traded at a ce of $112 per $1,000 bond. In the -year period after default, the nds declined to less than 25 cents the dollar. The company was reor- nized in February 1990. Four onths ago the bonds had rebound- to $117.62. By July 31 they were oted at $119.375. Big money was st—and made—on these bonds, all thin a fairly brief period.

The Public Service of New Hampshire bonds, like the majority of defaulted bonds, represent a potential equity investment because they wind up being exchanged for equity in a company. Determining the value of such bonds depends on close scrutiny of the strength of creditor claims on the bonds. Prospects for the stock likely to be part of any settlement will also be determined by such scrutiny.

Junk bonds are a very different animal. Their value depends on their current yield and the likelihood of default. They may be junk bonds, but they are still bonds. Defaulted bonds, by contrast, are equities.

Instead of mimicking the price fluctuations of the junk bond market, defaulted bonds should follow the cycles of the stock market. "In many respects, defaulted bonds are a safer and more predictable investment than junk bonds," says Richard Lehmann, president of the Bond Investors Association. "With a junk bond, you face a significant downside risk if the bond defaults. In contrast, a defaulted bond is priced at a discount to its expected eventual recovery.

"If the recovery expectation is correct, a built-in return will be achieved. Since this expectation is based mainly on known events, it should be accurate more often than an appraisal of a bond that is still paying, but vulnerable to more unpredictable events."

The recession in 1990 prompted dozens of initially well-regarded high-yield bond issues to default. These calamities happened too fast for most bondholders to escape the selling avalanches that periodically shuttered the market. After the defaults, however, the prospects for the companies became more apparent, creating an opportunity to purchase the bonds at a depressed price.

This is not to say that all defaulted bonds are sound speculations. Eastern Air Lines was never able to reorganize as a viable concern and many of its defaulted bonds will end up as wallpaper. LTV's loss of a $2 billion pension liability suit dashed hopes that LTV bonds would recover soon through a reorganized company.

So take the time to evaluate the situation. "A defaulted bond tends to hit bottom around the time of default and reaches a second low point six months after the default," says Lehmann. "From then on, the bonds typically rise in price."

Defaulted issues that look interesting now include Revco's 11.75% bonds due 2015 and Columbia Gas System's 10.25% bonds maturing in 1999. For different reasons, these bonds may offer total returns—income plus price appreciation—of more than 20%.

Revco recently announced a reorganization plan that likely will be approved by February 1992. The 11.75% bonds are traded over the counter at 71 cents on the dollar, equivalent to a 15.5% current yield. As part of the reorganization, these bonds will be substituted for 11% bonds due in 1999. These bonds likely will rise to a price of 80 within the next year, partly because investing in a company just out of Chapter 11 is much less risky than investing in a comparably rated company that hasn't entered bankruptcy.

Columbia Gas, in contrast, just defaulted on its formerly investment-grade bonds, saying it needed bankruptcy protection to renegotiate onerous long-term contracts with suppliers. Columbia resembles Texaco during its brief Chapter 11 period: There is a lot of shareholders' equity in the company, making its recovery almost inevitable.

The Columbia bonds fell to 85 cents on the dollar from 100 in one day, partly because many investment-grade bondholders aren't allowed to own non-investment-grade or defaulted bonds. The Columbia bonds are priced to yield an equivalent of 12.1%. Assuming the company emerges from bankruptcy in two years, the bonds could return 23% by mid-1993. Like the Texaco bonds, the Columbia bonds probably will be reinstated, pay back interest and recoup the $15 per bond capital loss of the Chapter 11 filing. ■

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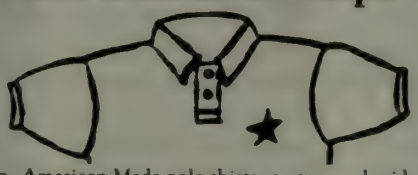

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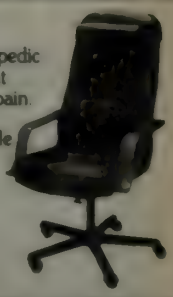

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Fashionable cash

NOT MANY LARGE COMPANIES have a more attractive record than Liz Claiborne, Inc., the $2.1 billion (estimated 1991 sales) clothing designer. Since 1980 its annual sales and earnings have compounded at 36% and 42%, respectively. But on July 22, when the New York-based company announced that results in the second half of 1991 wouldn't increase at the same rate as during the first half of the year, the stock dropped 15%, from 48⅜ to 41⅛. Recent NYSE price: 43½.

Analysts Marina Faraguna and Peter Siris of New York's UBS Securities estimate the company will earn $2.67 a share this year, up just 13% over 1990. But they're bullish all the same. Here's why:

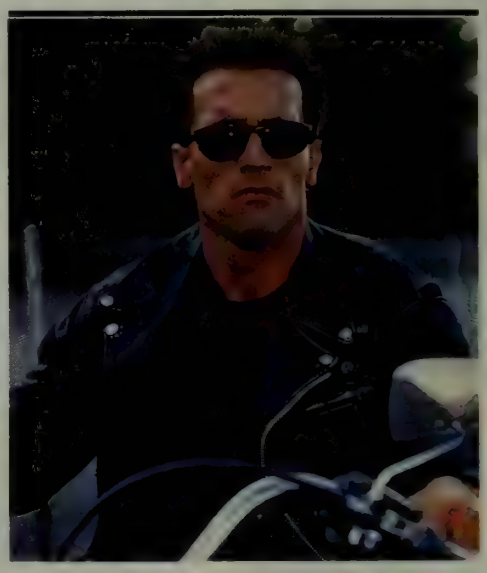
Liz Claiborne needs little capital to operate. The company owns no factories and turns its inventories quickly. As a result, it mints money. From 1984 through 1990 net cash grew from $11 million to $417 million, nearly $5 a share. (Long-term debt is virtually nil.) Even assuming margins remain flat and sales and earnings grow just 16% a year, the analysts project net cash will increase to nearly $1.6 billion by the end of 1995.

The analysts don't think Liz Claiborne will be content to let its cash continue to accumulate. The company could, for instance, raise the small, 35-cent-a-share dividend. Or it could buy back some of its 85.5 million outstanding shares. Repurchasing 10% at market would cost around $370 million. If it did this, Faraguna and Siris figure 1991 earnings per share would be more like $2.95, or 25% over 1990. Their current estimate for 1992 is $3.21, assuming no buyback. They think the stock will go to 64 over the next year.

Bad review

CAROLCO PICTURES INC., the $320 million (estimated sales) movie studio, has the hit of the summer, *Terminator 2: Judgment Day*. Now Carolco contemplates another blockbuster production: synergy, through a merger with Live Entertainment Inc., the $470 million (estimated sales) home video concern of which it already owns 55%. The concept: Carolco would provide Live with a supply of feature films; Live would provide Carolco with cash flow for film financing.

The merger plan calls for a stock swap whereby Live shareholders would receive $21.50 in value of the new combined company's stock—minimum two shares—and Carolco shareholders would get one share, with the price to be determined by the average price of Carolco stock over a 20-day period. NYSE-listed Live recently traded at 15, near its 1991 high. As for Carolco's Big Board stock, it reached 10⅞ earlier this year in anticipation of *Terminator 2*'s success but has lately sold off to 7⅝.



Zade Rosenthal/Tri Star Pictures

Scene from Carolco's Terminator 2
If Arnold Schwarzenegger can't terminate its cash crunch, will a merger?

What does The Street think about the proposed deal? Analyst Paul Marsh of Kemper Securities Group pans it. Live, he says, cannot count on Carolco for a steady stream of box-office successes. Nor can Live reliably furnish Carolco with enough cash flow in a weak home video market. Worse, Carolco's movie production might drain Live of the money it needs to bid successfully for the home rights to other studios' pictures.

Hooking up with Carolco is no bargain. Since 1988 it has produced cumulative operating cash deficits of $230 million while outstanding debt rose to $319 million. True, in 1990 the company earned $17 million on revenues of $259 million—thanks in great part to another Arnold Schwarzenegger hit, *Total Recall*. But even though Marsh thinks *Terminator 2* may generate $60 million of op ing income this year, he's still u Carolco will finish 1991 in the b Marsh notes that Carolco ma forced to write down some c $418-million-plus of inventory.

A merger of Carolco and Marsh concludes, would crea company with $535 million in de service, $100 million in interest overhead expenses, and no assur of stable cash flow. His advice is t both stocks. He thinks each coul by at least 30% from current le (Carolco has 30 million shares; C man Mario Kassar controls 56%. has 12.5 million shares.)

Carpenter, repair thysel

HECHINGER CO., the $1.6 billion timated sales) operator of some do-it-yourself home centers, i need of repairs. Between fiscal 1 and fiscal 1991, ended Jan. 31, e ings per share at the Landover, based company were sawed in from $1.30 to 65 cents. Since summer of 1989 the stock has g from around 20 to a recent 11⅞ o Meanwhile, industry leader H Depot has begun to open stores i Baltimore/Washington, D.C. Hechinger's most important mar

Analyst Dan Wewer Jr. of Atla Robinson-Humphrey thinks H inger is doing what's needed to itself around. Consequently, he's a buy, near term, on the stock.

The company has begun to con the majority of its stores to a format, the Hechinger Home Pro Center. The mix of merchandise changed: more for doors and dows, outdoor decks, the kitchen bathroom; less in the home furn ings and decorative categories. goal is to raise sales per store.

Ultimately, Wewer admits, H inger will be roughed up by H Depot. But he expects the newco to penetrate Hechinger's lea market slowly. Meantime, We looks for Hechinger to earn 85 cer share in the current fiscal year an much as $1.15 in fiscal 1993, w begins next February; that p Hechinger at about 11.5 times r year's estimate.

There are 27.6 million Clas shares. The company recently s

million new A shares at $12 e; all of the proceeds will be used e company for store conversions new store openings. In addition, are 14.1 million shares of thinly d Class B stock, which carries votes and is owned mainly by Hechinger and England families.

ting, testing . . .

DON McCOUN, of New York's n Murray, Foster Securities, sees rowth prospects for the indepen- clinical laboratory business. ng public companies in the field, Coun especially likes $200 million mated 1991 sales) Unilab Corp. nilab runs MetWest, the fifth- or -largest lab chain in the U.S. The pany was created by Corning 's MetPath division in 1989 to oit the anticipated consolidation he lab market in the West. It has wn by acquisition, the most recent te 1990, when it paid $42 million some operations of Roche Bio- dical Laboratories. The chain es Los Angeles, Denver, Sacra- nto, San Jose, Phoenix and Dallas. Clinical labs perform more than 00 different tests for physicians, ut half of which are routine, high- ume procedures whose results can reported within 24 hours. The d cost of facilities and equipment igh; ditto the cost of technicians l other support staff. But after this rhead is paid, the cost of perform- additional tests is relatively low. nce the potential for good profits the chain grows. McCoun thinks nilab will earn at least 8 cents a share s year, versus a 63-cent loss in 90. He looks for it to earn as much 45 cents a share next year. This nings spurt is all the more impres- e, he notes, given that Unilab is nually amortizing $12.5 million, or ound 40 cents a share, of goodwill ated to its acquisitions.

The stock—recent o-t-c price of —has nearly doubled since Janu- y. It's hardly cheap, at 20 times timated 1992 earnings. But over e next year McCoun thinks it can se to 11 or 12. As a result of a recent ivate placement and the conversion a note to equity, there are now 36 illion fully diluted shares. Corning wns some 43%.

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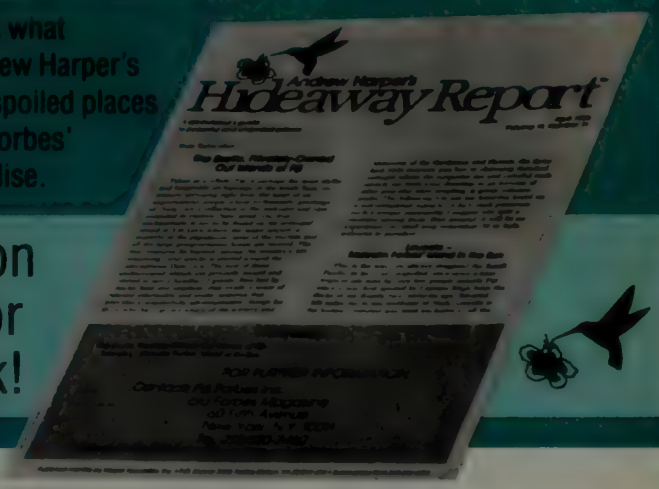

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"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

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"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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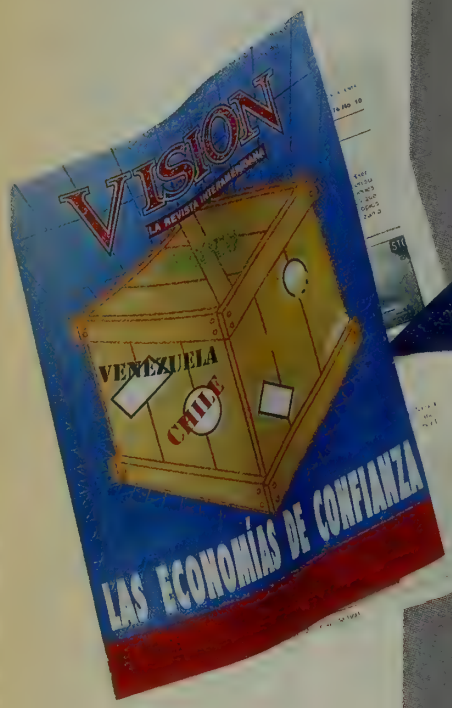

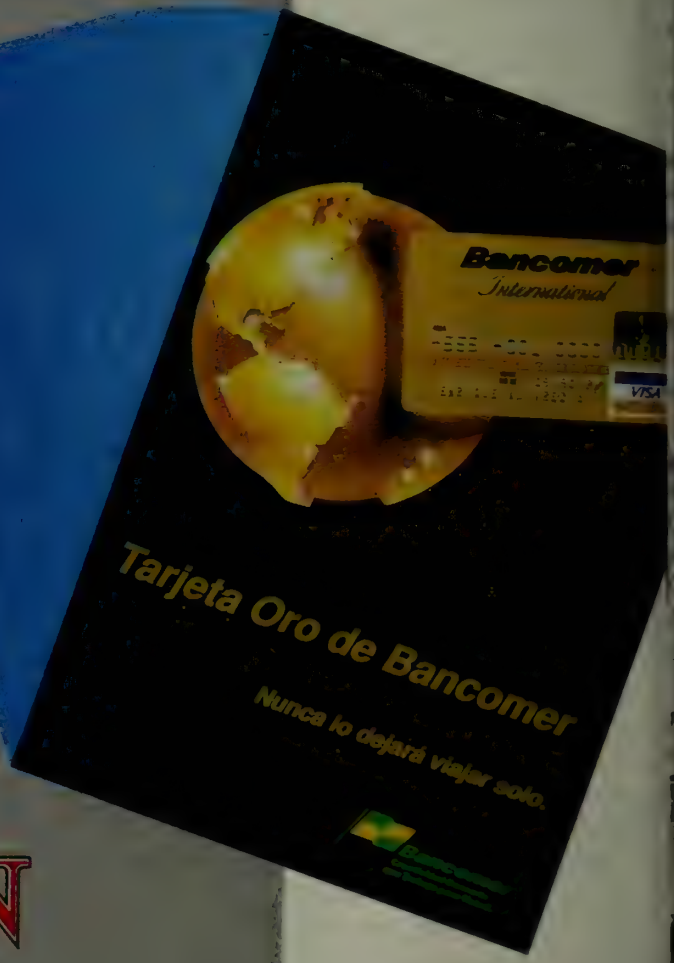

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e more things change . . ."

years ago in Forbes

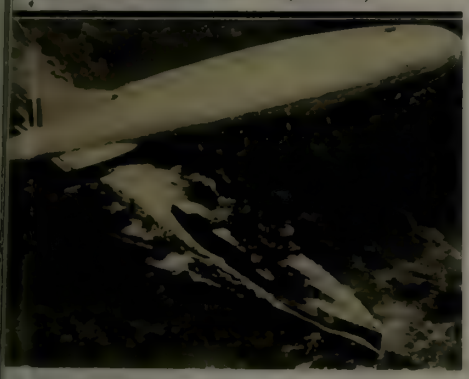
M THE ISSUE OF SEPT 3, 1921)

he [tariff] schedules in the Ford- bill have spurred several countries planning retaliation. . . . The two ninant facts which high protec- ists in this country should bear in d are: first, that the U.S. must find ign outlets for more products n any other nation in the world; second, that foreigners now owe some $14 billion and can pay us y in goods. High tariff walls here y incite the raising of high tariff riers in other countries . . . and ke it impossible for this country to lect from foreign debtors."

here are 5.7 million persons out work in the U.S., according to ures supplied to the Senate by Sec- ary Davis. The report classifies the employed as follows: manufactur- and mechanical industries (in- ding building trades), 3.9 million; ning, 250,000; transportation, 0,000; trade and clerical workers, 0,000; domestic and personal ser- e, 335,000."

0 years ago

ROM THE ISSUE OF SEPT 1, 1931)



.S.-built dirigible Akron dwarfs attleship New Hampshire in length.

"The vast air-mileage of the 'Los Angeles' and the 'Graf Zeppelin,' without accident, speaks for itself. Each has made single nonstop flights of more than 5,000 miles at average speeds of more than 60 miles an hour. The total mileage of both ships is well over 200,000."

"Cotton and rubber have been lead- ers in the continued decline of com- modity prices. On a government esti- mate indicating some 1.5 million bales more than private estimates, cotton broke fully $7 a bale, the Octo- ber delivery getting down to 6.7 cents a pound, the lowest price for any cotton option since January 1905. Continued heavy shipment from the Far East sent rubber below 5 cents a pound for the first time. . . ."

50 years ago

(FROM THE ISSUE OF SEPT 1, 1941)

"A brand new $35 million [Ford] factory to build Pratt & Whitney air- plane engines is about ready for oper- ation. It will turn out 40 engines a day. At Willow Run, near Ypsilanti, Ford is building the world's largest airplane factory. With an assembly line more than a mile long and its own airport, this plant will spread over two square miles and cost $48 million."

An aging Henry Ford exhibits new Ford-built aircraft engine.

"To my mind, all talk of anything like a ten years' war is absurd. I don't for a moment believe that Hitler can hold out that long—even should he force Russia's army to continue retreating. The sufferings already borne by every nation under Nazism are appall- ing. . . . Long before 1951, nations under Hitler's cruel heel are certain to revolt."

–B.C. Forbes

25 years ago

(FROM THE ISSUE OF SEPT 1, 1966)

"Even if their lost momentum is regained some day, their basic eco- nomic makeup appears to leave the S&Ls vulnerable to a repetition of the present predicament. The current tight money market in the U.S. has not so much created as revealed the industry's Achilles heel. In short, the S&Ls are simply less well organized than many competing types of finan- cial institutions to weather a sudden tightening in the money market."

"Away from the kitchen: The more education a woman has, the more likely she is to work outside the home [is the conclusion of a] recent Depart- ment of Labor publication report that 53% of women aged 18 and up with four years of college are in the labor force and 72% of those with five years of college."

10 years ago

(FROM THE ISSUE OF AUG 31, 1981)

Malcolm Forbes at his 40th reunion.

"Time's inexorable march came vis- ibly to eye and mind as our Princeton Class of 1941 paraded at its 40th reunion in June. I was a bit startled at how old so many long unseen class- mates looked—until receiving this picture of self and undergraduate roommate Dr. Louis Pyle."

You have to come up in the world before it's worthwhile for those worth less to put you down.

When you don't understand, it's sometimes easier to look like you do.

None mess up more often than the old—except the young.

It's great to Arrive, but the trip's most always most of the fun.

He who hesitates is sometimes wise.

–MALCOLM FORBES

A Text ...

The Lord recompense thy work, and a full reward be given thee of the Lord God of Israel, under whose wings thou art come to trust.
–RUTH 4:12

Sent in by Tina Engle, Land O'Lakes, Wis. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Art can never exist without naked beauty displayed.
–WILLIAM BLAKE

I wonder whether art has a higher function than to make me feel, appreciate, and enjoy natural objects for their art value. So, as I walk in the garden, I look at the flowers and shrubs and trees and discover in them an exquisiteness of contour, a vitality of edge or a vigor of spring as well as an infinite variety of color that no artifact I have seen in the last 60 years can rival.
–BERNARD BERENSON

Art is a collaboration between God and the artist, and the less the artist does the better.
–ANDRE GIDE

Art for art's sake makes no more sense than gin for gin's sake.
–SOMERSET MAUGHAM

Art produces ugly things which frequently become beautiful with time. Fashion, on the other hand, produces beautiful things which always become ugly with time.
–JEAN COCTEAU

The principle underlying all art is of a purely religious nature.
–VINCENT D'INDY

The idea of a Christian art is a contradiction in terms.
–ERNST HAECKEL

Art imitates nature as well as it can, as a pupil follows his master; thus it is sort of a grandchild of God.
–DANTE

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Where the spirit does not work with the hand there is no art.
–LEONARDO DA VINCI

Art is a mirror not because it is the same as the object, but because it is different. A mirror selects much as art selects; it gives the light of flames, but not their heat; the color of flowers, but not their fragrance; the faces of women, but not their voices; the proportions of stockbrokers, but not their solidity.
–G.K. CHESTERTON

We all know art is not truth. Art is a lie to make us realize the truth.
–PABLO PICASSO

Lying, a telling of beautiful untrue things, this is the proper aim of art.
–OSCAR WILDE

Art: Simply a right method of doing things. The test of the artist does not lie in the will with which he goes to work, but in the excellence of the work he produces.
–ST. THOMAS AQUINAS

Nothing is more useful to man than those arts which have no utility.
–OVID

Nature is everything a man is born to, and art is the difference he makes in it.
–JOHN ERSKINE

Art does not reproduce the visible; rather, it makes visible.
–PAUL KLEE

Buy Old Masters. They fetch a much better price than old mistresses.
–LORD BEAVERBROOK

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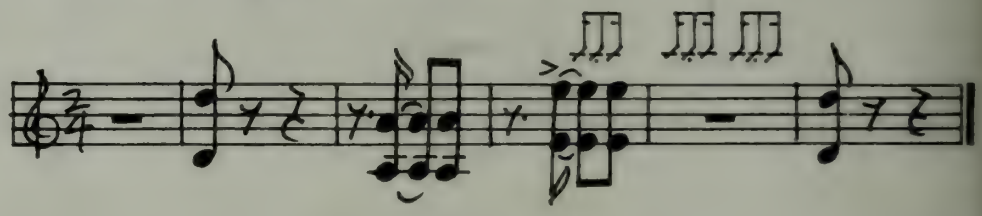

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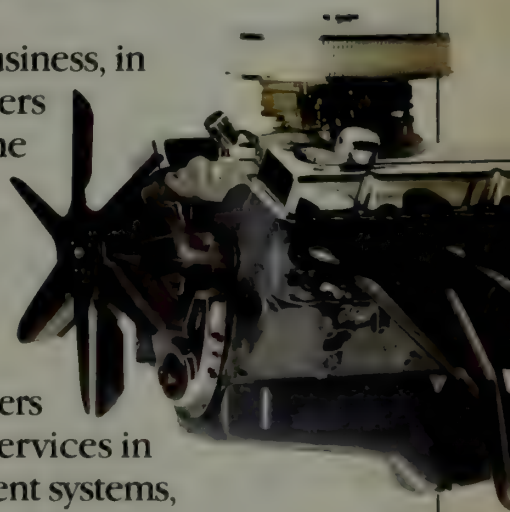

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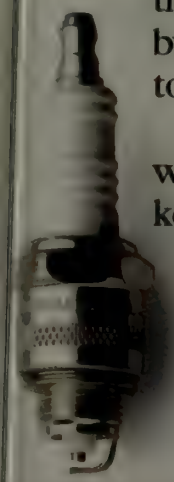

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Shopping for ideas

WHERE DOES FORBES get ideas for articles? By inspiration occasionally. More often by slowly accumulating information that points to important new trends or changes in trends. For example:

Gretchen Morgenson was pondering a visit she made to a Safeway store where she had been impressed by the quality and attractiveness of the house-brand groceries and toiletries. A bit later she was talking with an investment banker who had done a leveraged buyout on a marketer of toiletries. The banker told Morgenson he was worried by the growing power of food retailers. This didn't bode well for the profitability of brand-name grocery products.

Morgenson began to see a trend. After talking to some more people, she suggested we do a story on the decline of branded packaged goods. I was skeptical. Hadn't no less a sage than Warren Buffett banked heavily on the value of these consumer franchises? And we couldn't be in the publishing business if we didn't understand how advertising could create consumer preferences. But Morgenson stuck to her argument. Then I remembered Sainsbury.

While reading copy for our annual report on world billionaires this summer, I had been struck by an item on the Sainsbury family of Great Britain. These folks had become billionaires by running supermarkets where net profit margins averaged at least double what the best U.S. chains produce. This in good part because Sainsbury does a large business in house-brands. If it could happen there, why not here?

Dozens of interviews later Morgenson turned in "The trend is not their friend," the cover story in this issue. It points up a simple moral: No trend lasts forever. "Consumers," says Morgenson, "are not sheep, they're not stupid and you can't take their loyalty for granted when you keep raising prices the way the cereal people and the soap people have been doing." Are the consumer brand franchises overrated? The story begins on page 114.

The new map of Eastern Europe

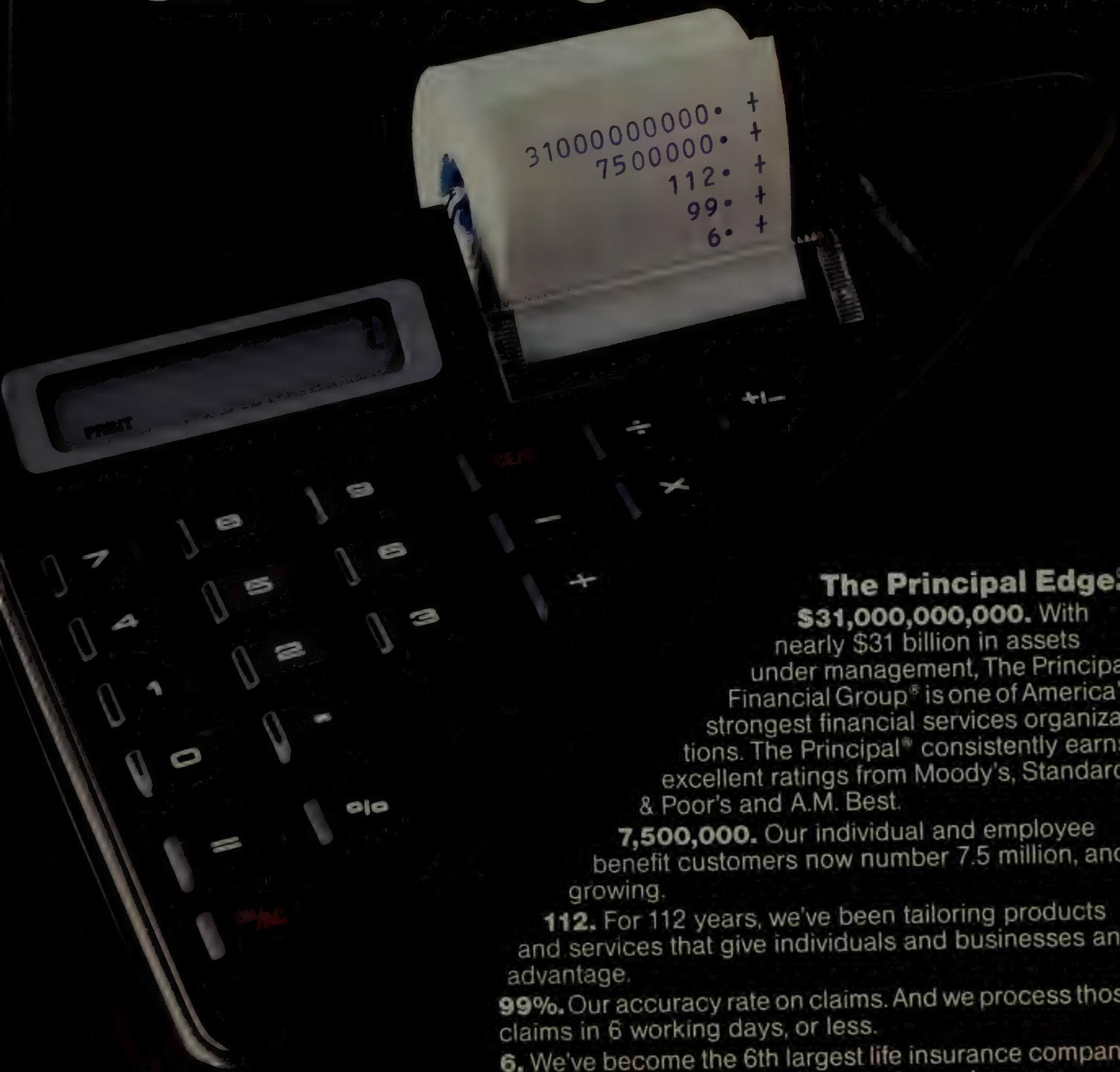
VLADIMIR KVINT, a Russian-born economist, has contributed forward-looking coverage for FORBES on the collapse of socialism. In "Russia as Cinderella" *(Feb. 19, 1990)* he was perhaps the first writer to predict that the Soviet Union would come unglued. Now, he looks beyond the dissolution and sketches out the new economic and political groupings he is convinced will emerge. "Siberia: a warm place for investors" begins on page 96.

Flying high

WHAT IS "good management"? Lots of people have tried to define it, but it can better be described than defined. In "Hit 'em hardest with the mostest," Subrata Chakravarty does one of the best jobs of describing a specific case of superior management I have seen in years. His report on Southwest Airlines begins on page 48.

James W. Michaels
Editor

Whatever your financial needs, our numbers give you an edge.



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Guerra de las colas

LAST YEAR PepsiCo became the largest consumer products company in Mexico by acquiring 80% of cookie king Empresas Gamesa *(Feb. 18)*.

But archrival Coca-Cola still controls two-thirds of the Mexican soda market, versus 20% for Pepsi—and that galls the folks at Pepsi's Purchase, N.Y. headquarters. PepsiCo has for years been fortifying its distribution network by buying independent Pepsi bottlers in the U.S. and abroad. It apparently wants to do the same thing in Mexico by buying that country's largest Pepsi bottler, Grupo Escorpion. Escorpion, privately held by the Molina family, is reputed to be worth $700 million—more than twice what PepsiCo shelled out for Gamesa. But it may be well worth the price, because Grupo Escorpion's sugar mills, combined with those run by Gamesa, could significantly bolster PepsiCo's cookie, candy and soft-drink lines in Mexico. –CLAIRE POOLE

Crowded in the Caymans

ACCUSED stock swindler Richard Bertoli has been dubbed the "Teflon don" of the securities underworld for his ability to squiggle out of prosecution for his misdeeds (FORBES, *Oct. 1, 1990*). But in April a British court quashed Bertoli's effort to prevent the feds from examining his intricate web of secret bank and brokerage accounts in the Cayman Islands, a member of the British Commonwealth and a popular tax haven in the Caribbean. The feds, who combed through the records in July, say Bertoli used the accounts to carry out his alleged stock manipulations. Depositions are scheduled to begin this month. Bertoli, 59, could stand trial in Newark, N.J. by this winter.

Meanwhile, as of June the Securities & Exchange Commission was investigating trading in the stock of Executive Telecard, one of the few Bertoli-connected companies with a viable business: an international telephone card that lets travelers avoid exorbitant rates on hotel phones.

Earlier this year, TW Real Estate, a company formed in the name of Bertoli's wife, welched on an order to buy $250,000 worth of Executive Telecard's over-the-counter shares after the price tumbled.

When an executive from the aggrieved marketmaker, Dominick & Dominick, demanded payment from Mrs. Bertoli, he got a call instead from

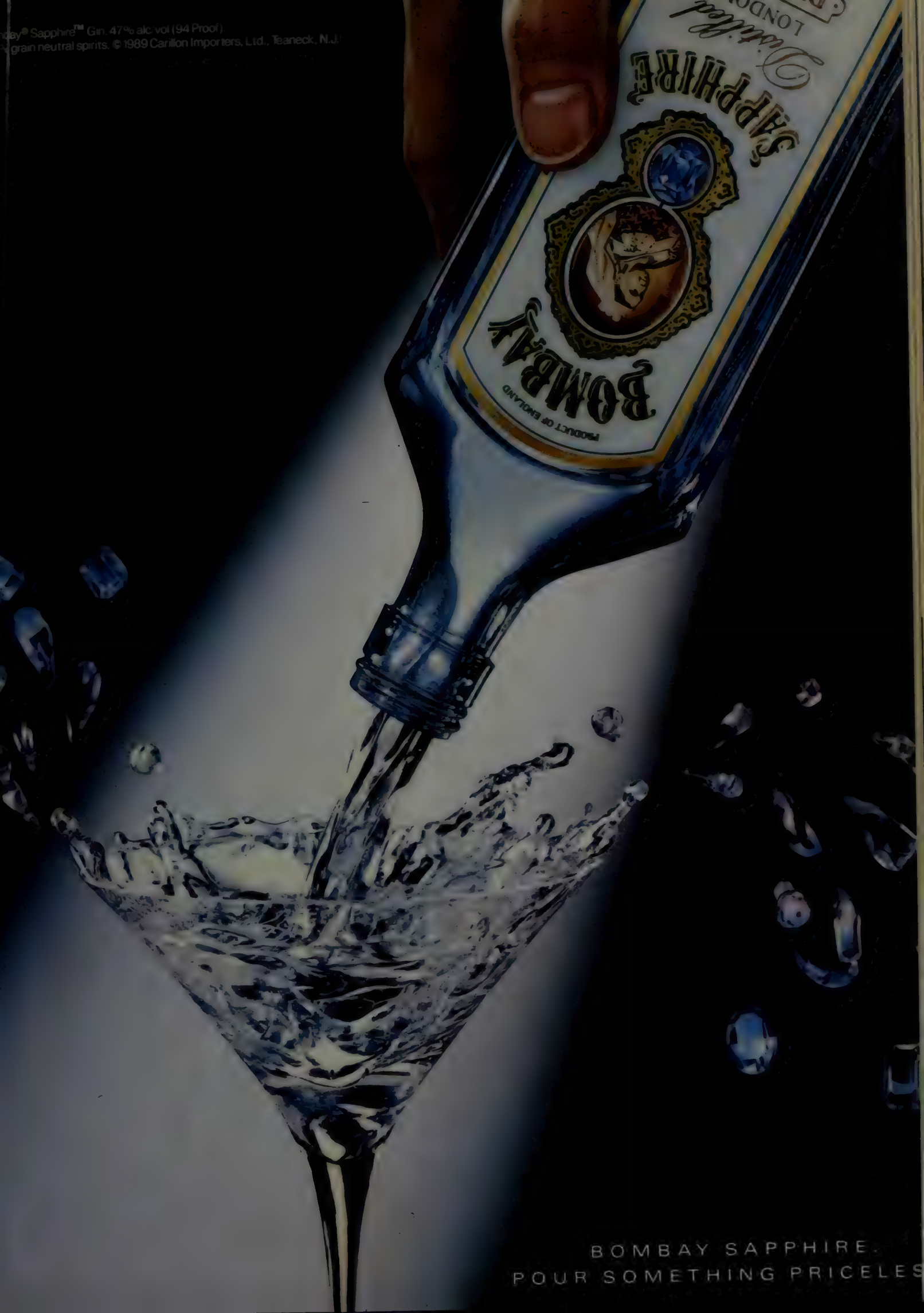
The Bertoli spread in Rye, N.Y.
On an income of $442 a month?

Bertoli himself, and quickly received the money by wire. This is the same Richard Bertoli who has been in personal bankruptcy since 1983, when he claimed that his only steady income was a $442 monthly check from the Veterans Administration. If the feds have it their way in court, they will be providing Bertoli's room and board as well.

–GRAHAM BUTTON

Hibernation?

FORBES' crystal ball was badly clouded when we praised the management of New Orleans' Hibernia Corp. *(Mar. 20, 1989)*. The $7 billion (assets) bank had run up a string of 64 consecutive quarters of rising earnings, and we were impressed. We should have probed deeper.



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8

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After the Office of the Comptroller of the Currency instituted tighter accounting standards in early 1990, the bank's commercial real estate portfolio didn't look good. Loans to wobbly borrowers—like Charter Medical Corp. and Kinder-Care—went bad after Hibernia bought portions of them from money center banks. In the last year total nonperforming assets have more than doubled, to $340 million. Hibernia has lost $94 million over the last 18 months. The NYSE-listed stock has dropped from 22 a share to a recent 3.

In July Chairman Martin Miler resigned, apparently under pressure from banking regulators, and was immediately followed by three other top executives. Sidney Lassen, a New Orleans real estate investor and Hibernia board member, took over as interim chairman. The feds are rumored to be scrutinizing Hibernia's books to determine if the now deposed management stretched federal accounting rules to maintain the earnings streak. The bank has warned it may have to default on an $85 million line of credit from seven other banks.

Ousted Hibernia Chairman Martin Miler
The bank's days may also be numbered.

What now? The bank shouldn't have trouble selling its crown jewel, $1.1 billion (assets) Hibernia National Bank in Texas. But what the parent company really needs is a merger, and rumor is investment banker Goldman, Sachs has found no takers without government assistance.

In our 1989 article we lauded Hibernia as disciplined. Looks more like dumb.

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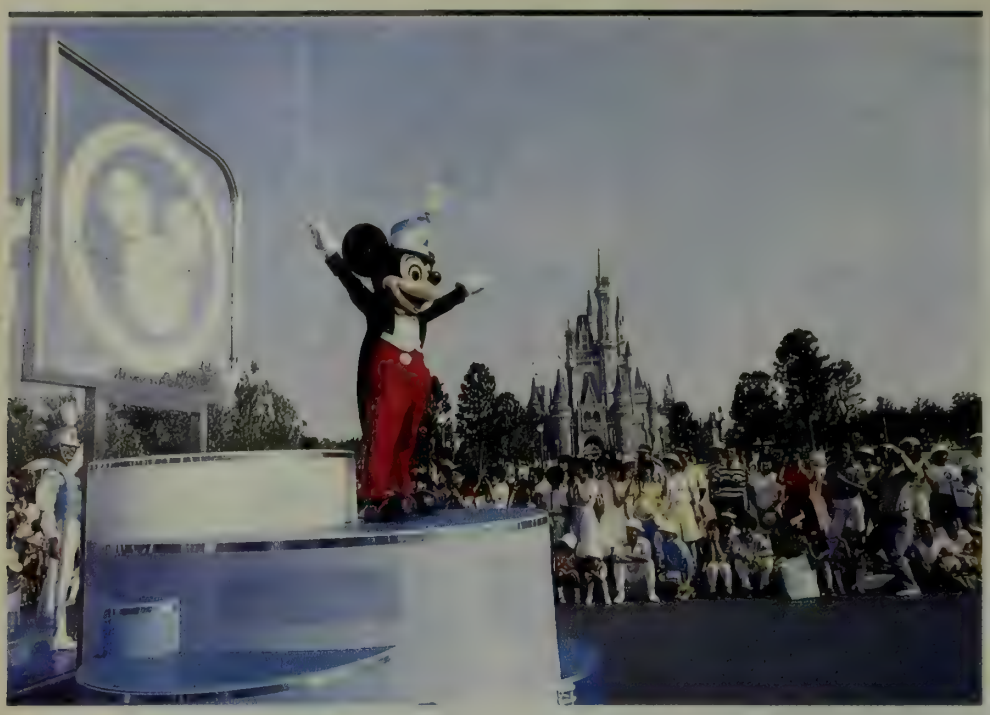


Panda Shah/Stock Market

Mickey cavorts at Tokyo Disneyland
Trying to get a piece of the new park?

Mickey does Tokyo

Is Walt Disney Co. trying to recover from a missed trick over Tokyo Disneyland? A decade ago it took no equity in the project and put up no construction money in its deal with Japanese partner Oriental Land Co. Instead it took 10% of ticket sales and 5% of concessions, which have paid Disney handsome royalties of $415 million since the park opened in 1983. But, in hindsight, Disney would have been better off owning a piece of the park.

Disney now wants to build a version of the Disney-MGM studio tour next to the Tokyo park, like the one that opened in Orlando in 1989. Oriental Land will decide in March whether to go ahead. Disney at one point spoke of taking a 50% stake in the project, says Masatomo Takahashi, chairman of Oriental Land, in a recent newspaper interview. He isn't likely to give in easily to Disney but seems to want Disney to kick in for construction costs this time.

Real estate is precious in Japan, and Oriental Land (mostly owned by Mitsui Real Estate, Keisei Electric Railway and Chiba Prefecture) owns the spacious site. And the prefecture must bless any disposition of the property. Now we'll see how good a negotiator Disney's Michael Eisner is when the other guy holds strong cards. –Gale Eisenstodt and Hiroko Katayama

DeBartolo restructures

Edward J. DeBartolo, the nation's leading shopping mall developer, appears caught in a cash crunch. His company has been renegotiating over a half-billion dollars of unsecured short-term debt since the beginning of the year with a dozen of its banks, including Chemical and Wells Fargo.

Much of DeBartolo's problem is that he is opening over 5 million square feet of malls this year, right in the midst of a sick retail market. Also, DeBartolo's $480 million loan to the bankrupt Campeau Corp. hasn't paid interest since 1989. No one thinks DeBartolo is going under, but with the banks in a tough mood these days he's probably going to have to kick in higher interest and throw in additional collateral. And DeBartolo is likely to get some fresh cash in the restructuring. But the company says it hasn't yet decided to do the deal.

This is a win?

Britain's TVS Entertainment, staggering from its $320 million purchase of the U.S.' MTM Entertainment in 1988, may be taking on another heavy financial burden. To stave off competition in the British government's auction of commercial television licenses, TVS went hog-wild. To keep its existing license for the desirable southern England franchise, TVS bid a preemptive $90 million a year, more than twice its pretax broadcasting profit in 1990.

Winners will be announced next month. TVS looks a shoo-in, but it will be a Pyrrhic victory at that price. TVS stock sold off on news of the bid. Time Warner, on the prowl for international acquisitions that don't cost too much, has agreed to help shoulder the cost, paying about $25 million for up to 21% of the company if TVS wins. –John Marcom Jr.

Bank shot

A who's who of rich Dallas businessmen are scrambling to reduce their financial vulnerability in recent law-

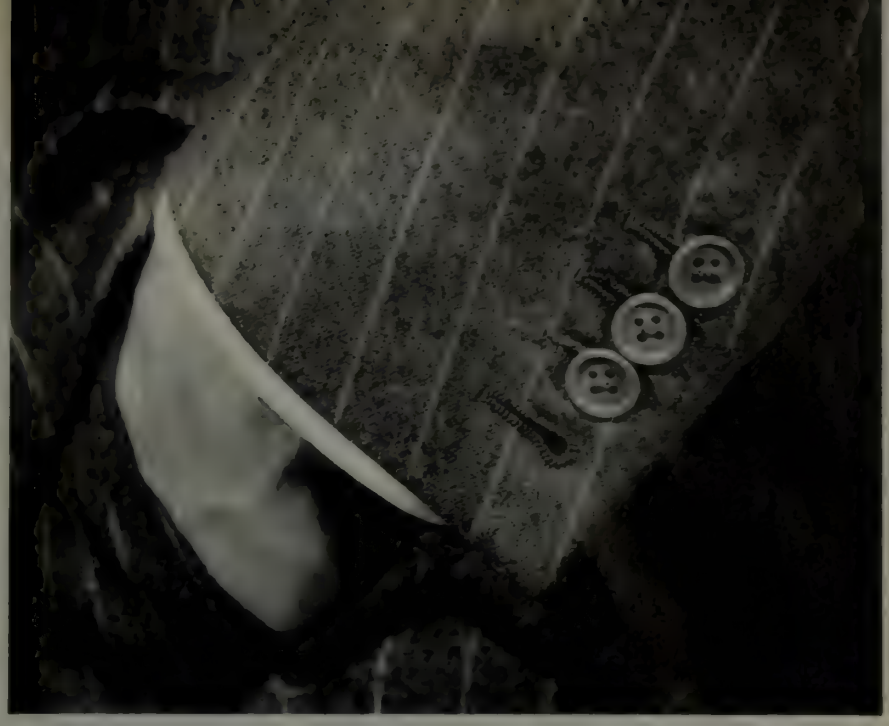
suits filed by the Federal Deposit Insurance Corp. over the 1988 failure of Dallas' First RepublicBank. Among the ex-directors named in the suit are oilman Ray Hunt, country club magnate Robert Dedman, real estate executive J. McDonald Williams and ex-Dallas Cowboys owner H.R. (Bum) Bright. The suits seek over $100 million in damages; the First Republic bust will cost the feds $3 billion, still the biggest bailout ever.

Former directors deny FDIC allegations they were asleep on the job. Some complain that FDIC Chief William Seidman—who leaves office next month—promised them just before the failure that they wouldn't be sued personally. Since the failure, shareholder suits have exhausted most of the $25 million worth of liability insurance for officers and directors, say the insurers. Some of the defendants in the FDIC suit just sued the insurers, claiming existence of another $25 million or so of coverage. If that gambit fails, some Dallas heavy hitters could find themselves almost totally exposed. —WILLIAM P. BARRETT

Kick 'em when they're down

JOHN GUTFREUND was to be a panelist at an SEC-hosted conference for world securities regulators planned for late September. He was to share the podium with Gerald Corrigan, president of the New York Fed, the guy who reportedly gave Gutfreund the push that toppled him as majordomo of Salomon Brothers. Now the SEC has also given Gutfreund the boot.

Deposed Salomon chief John Gutfreund
The SEC said "no thanks."



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fore.
Tempus Fugit.
It's a small world.

Health care costs

SIR: It is refreshing to find someone who recommends disclosure and free-market economics as a solution for controlling health care costs *(Fact and Comment, Aug. 5)*. Physicians and hospitals do have price lists for their services. Services can be compared. A review of recent admissions for a local hospital shows that while emergency care will not be responsive to this system, 68% of hospital admissions are on a nonemergency basis. In these situations an individual could consider cost.

JAMES W. BETHEA, M.D.
Longview, Tex.

SIR: I disagree with you that the primary focus for change in our health care system should be on the hospitals. The hospital is the last and most tangible element in the modern health care delivery system. A great many hospitals are either not-for-profit or local-government-owned. This cannot be said of the suppliers, pharmaceutical companies or most of the physicians.

This "system" is driven by the physician caring for the patient. In a free market the consumer and/or family must take an active part in the decision-making process in how they are being cared for and the cost of the care provided. As a rule, neither is currently happening. Resource consumption is controlled by the physicians and the patient. Any truly productive changes must focus in this area.

RANDALL D. ARLETT
Business Manager
Pullman Memorial Hospital
Pullman, Wash.

Chinese checkers

SIR: While your cover story on Shenzhen ("The mountains are high, the emperor is far away," *Aug. 5*) paints an accurate picture of phenomenal growth, the zone still has its problems, specifically its inability to launch an organized securities exchange and the related shortage of good management talent. Don't underestimate the strength of the socialist political structure, especially on a local and provincial level. The "tired, old autocrats" have spent a great deal of effort purging and rebuilding their power throughout the PRC.

STEPHEN A. KOLENDA
Associate Professor of Management
Hartwick College
Oneonta, N.Y.

Simon says

SIR: Re "Simon stumbles" *(Aug. 5)*. The article was written in direct contradiction of facts painstakingly laid out for FORBES by my partners, Gerald L. Parsky and Preston Martin. Notwithstanding FORBES' absurd "valuations" on certain of our investments and inaccuracies regarding what we paid for our institutions, we believe "the score to date" is quite simple—over $200 million in profits on just two investments in the financial services industry.

The press very liberally judges the ethics of the businessman. But it is ironic that they exempt themselves from the same standards they so strictly impose on others.

WILLIAM E. SIMON
WSGP Partners
Los Angeles, Calif.

Patent follies

SIR: Re your article "Whose invention is it anyway?" *(Aug. 19)*. The U.S. Patent Office can only be a rubber stamp issuing entry visas into the U.S. legal system and guaranteeing job security for lawyers and patent examiners. To argue that the patent system "protects" inventors is like saying the Mafia protects small family businesses. Sure it does, but at what cost?

TARI TARICCO
San Pedro, Calif.

Cocaine control

SIR: In the International Billionaires issue *(July 22)*, you claim that the Ochoa brothers, members of the Medellin cartel who surrendered to Colombian authorities in December, now run their illicit business from jail.

There is no evidence that they are conducting business from prison. Pablo Escobar, leader of the Medellin cartel, recently surrendered. Extraordinary steps are being taken to ensure that he will not continue his illicit business from jail. If any illegal activity should occur, Escobar will lose the benefits of his plea bargain.

Colombia will continue its vigorous law enforcement and interdiction efforts. The only real way to stop the flow of cocaine is to stop demand. Winning this war will take a concerted effort between our country and the governments and peoples of consumer nations.

JAIME GARCIA-PARRA
Ambassador for Colombia
Washington, D.C.

Wishful waters

SIR: "Calling Commodore Gould" *(Follow-Through, July 8)* lacks objectivity. Irving Gould is not an "absentee" chairman, but works regularly, week in and week out, at Commodore offices. Software developers have not "avoided" writing for Commodore Amiga. Thousands of software titles exist for the Amiga. Your conclusion that Commodore faces "rough sailing ahead" is perhaps wishful.

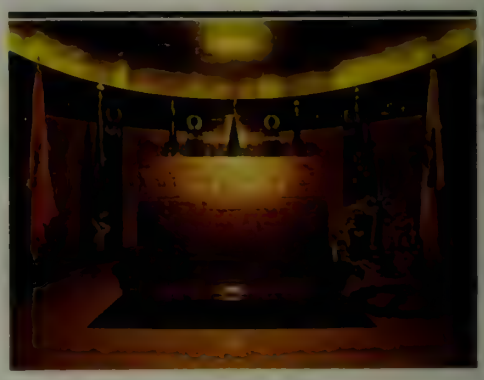
MEHDI R. ALI
President
Commodore International Limited
New York, N.Y.

R.I.P., Abe

SIR: Abraham Lincoln's remains will definitely rest in peace *(Fact and Comment, July 22)*. After he was buried, some 19th-century ghouls dug them up. He was reburied under tons of concrete. The samples of body tissue referred to were removed before he was buried.

JAMES S. SWEET
Boone, N.C.

It still ain't right!—ED.



Lincoln's Tomb, Springfield, Ill.
Safe from ghouls and other busybodies now?

The art of writing.

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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

THE GLORIOUS REVOLUTION

THE RUSSIAN REVOLUTION of October 1917 was history's worst disaster since the fall of the Roman Empire. It brought into being a system that killed tens of millions of people and ruined the lives of hundreds of millions of others. It spawned Naziism, a World War and the Cold War. It corrupted the human soul, perverting or destroying every humane impulse. It debased language—"truth" was a lie; "democracy" was dictatorship; "liberation" was slavery; "the people" were a self-appointed, self-perpetuating elite of murderous gangsters, and so on. Communism was indeed an Evil Empire, a new Dark Age.

What Lenin launched, Yeltsin sank. Communism has suffered its ultimate discrediting.

The events of the week of August 18 may be for Russia what the Glorious Revolution was for England in 1688, when Parliament turned back the reactionary forces of James II, putting in train the evolution of ideas that led to our own revolution and the rebirth of democracy.

But Yeltsin's revolution may do more than rescue Russia from its dismal past. The dawn of the 20th century was an optimistic age. People contemplated a dazzling era of material prosperity and political enlightenment. Democracy and the rule of law would spread everywhere. Even autocratic Russia was lurching toward a constitutional monarchy; it had the world's fastest economic growth rate; it was the globe's largest exporter of grain.

Then came World War I, a murderous conflict that shook the underpinnings of Western liberalism, creating the environment for communism and fascism.

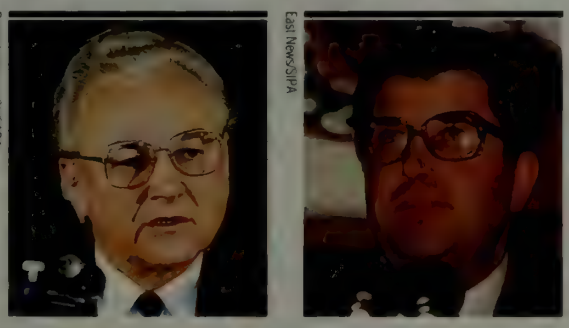
Now, as the 20th century closes, we have a chance again of fulfilling the promise with which it began.

BUT EUPHORIA OVER THE COLLAPSED KREMLIN COUP

shouldn't blind us to the need to overhaul our policies with that troubled Empire.

The U.S.S.R.'s centrifugal forces will accelerate. Almost unnoticed during the attempted coup was the sudden declaration of independence by Estonia, the most cautious of the Baltic nations. We shouldn't hesitate, as we have up to now, to recognize breakaway republics if they have established genuine democracies.

The Soviet economy is a shambles. But our economic advice thus far has been half-baked, when not utterly destructive. In Eastern Europe, for instance, it has helped throttle the transition to open, vibrant markets because of its emphasis on high taxes and devaluations.



Renal Lehtinen/Gamma OYS/ABA East News/SIPA

Presidents Ruutel and Gorbunovs: Estonia and Latvia declared independence. The critical Ukraine is doing it, too.

We can help, not so much with aid as with *useful* advice.

First priority is currency reform. Without real money, an economy reverts to barter, which is what has happened to the Soviet Union. This century provides numerous successful models for reviving a country's currency, including Germany, Italy and South Korea. We can provide Russia with the details.

Next would come other basics: making it easy for people to begin businesses; reducing onerous taxes on private entities; establishing private property rights; and selling off apartments (perhaps to current occupants for a nominal fee), land and state companies. Here, again, we can

LATIN AMERICA—NEXT ECONOMIC POWERHOUSE

I was recently part of a delegation of business executives headed by Commerce Secretary Robert Mosbacher that accompanied Vice President Quayle (see also p. 24) *on a four-nation swing through Latin America. Our mission was to seek out new business; the Vice President's, to encourage free market reforms and democracy. Below, some observations:*

AIR FORCE TWO—Leaders in Argentina, Brazil, Venezuela and even Haiti are now speaking and acting as if they were pupils of Milton Friedman.

■ In Venezuela, President Carlos Andres Perez is

(Continued on p. 192)

offer much needed technical advice. Soviet communism today is dead, but that doesn't guarantee that democracy will supplant it. Economic revival is essential for keeping authoritarian and xenophobic impulses at bay.

ROUND TRIP

RUSSIA should send Lenin's corpse in a sealed train to Switzerland, where that monster started his fateful 1917 journey. The remains should then, at last, be buried or burned.

MAN WITH NO FUTURE

Fidel Castro

DAN QUAYLE IS NOT THE DAN QUAYLE

portrayed by political commentators and TV comedians. And never has been.

Before landing at our first stop in Caracas, Venezuela, on our Latin America trip, the Vice President briefed us on how he saw the situation there, giving us insights into the country's political and economic scene and then asking for thoughts and observations. (He repeated the process with each of the other countries.) It was quickly evident that Quayle's knowledge of and feel for the region—this was his third visit—went beyond his voluminous briefing books. He displayed an impressive, easygoing confidence. After leaving the Vice President's Air Force Two cabin, my business colleagues were incredulous, remarking to each other how utterly different he was from the media caricature.

Victor Grubov/SIPA

Quayle and Argentine President Menem sign diplomatic agreements.

We also saw Quayle interact with national leaders. He made his points well, understanding instinctively when to push, when to pull back and how to keep the atmosphere relaxed. He handled his press conferences superbly, never deferring to aids for technical advice. David Rockefeller knows Latin America as well as any expert: "I don't think the U.S. could have been better represented than by the Vice President."

Quayle has almost made a career of confounding the skeptics. He became a congressman by upsetting an entrenched incumbent. He repeated this feat four years later in 1980 when he ran for the U.S. Senate. Quayle recognized that his reelection in 1986 would come in the middle of a Republican President's second term, traditionally a bad time for the White House party. His hard work in Indiana paid off; he won by a record margin while the Democrats swept the Senate.

Quayle will continue to surprise the doubters.

DYNAMO MISSIONARY

THAT LATIN AMERICAN TRIP also let me see firsthand Robert Mosbacher at work. He is a most effective Commerce chief.

Like other wise government officers, Mosbacher hasn't let himself become a prisoner of his in-box. His primary goal is simple: promote American exports by reducing trade barriers.

He is one of the principal heroes of our forthcoming free trade agreement with Mexico, which he long advocated. Mosbacher brought his Mexican counterpart to the U.S. last fall for a whirlwind tour to sell the concept to skeptical American business executives. This spring he was the Administration's point man on Capitol Hill in winning passage of the necessary legislation.

Thanks in no small part to Mosbacher, U.S. diplomats and officials forcefully intervene with foreign governments to help American companies when critical contracts are at stake or to overcome particular obstacles. The Japanese and Europeans have been doing this for years. No previous Commerce Secretary has put together so many helpful foreign trade missions.

At home, Mosbacher will have taken what he calls his "road show" to 30 cities by year-end to encourage exports. Being a successful businessman himself, Mosbacher knows exactly what kind of information and assistance small and medium-sized companies need to crack foreign markets. His program has won rave reviews from scores of executives.

HOW'S THIS FOR LUCK?

OCCASIONALLY, INSTINCT CAN BE a sounder guide than intellect. On Monday, Aug. 19, moments before a dawn appearance on "World Business," CNBC's cable TV show, I learned of the coup against Gorbachev. The first question was, naturally, on that event.

Question: As the editor-in-chief of the "Capitalist Tool," what do you think of what's going on this morning in the Soviet Union?

MSF Jr.: Well, Gorbachev's close ally, Aleksandr Yakovlev, warned several days ago of the possibility of a Stalinist coup. But I don't think we should rule out the possibility that Gorbachev may end up being in power again, when the full reaction of the international community is felt. The Soviet Union knows that it needs Western credits, needs Western technologies, and it's not going to get it with the neo-Stalinist regime. So I don't think it's over yet.

I quickly regretted that rash remark. "It's on tape, too," I rued to myself.

Someday I'll summon up enough chutzpah to resurrect that tape as proof of my prophetic genius. For now, I'm just grateful to Yeltsin for not making me look foolish. ■

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Other Comments

Bungling Buffoons

"WE KNEW the Communists couldn't do anything right."
—Joke sweeping Moscow, following the failed coup.
–BILL KELLER, *New York Times*

Supernumerary

DOES AMERICA really need 70% of the world's lawyers? There is one lawyer for every 335 people in the U.S., as opposed to one for every 9,000 people in Japan.
–VICE PRESIDENT DAN QUAYLE, before the annual meeting of the American Bar Association, *Wall Street Journal*

Anachronism

THE REASON the American rule [of each side of a lawsuit paying its own legal costs, as opposed to the British rule, in which the losing party pays all legal fees] came into being was that so many Americans in the early days of the country were debtors and so many of their creditors were foreigners, mainly British. Even "rich" Americans were usually rich in terms of land, not liquid assets. The new rule forced creditors to pay their own, often considerable, legal costs in order to collect a debt. This of course firmly discouraged the creditors from suing at all.

The American rule has led, in recent years, to a huge increase in the number of lawsuits. All this litigation, of course, is immensely profitable to lawyers but a great detriment to both American society as a whole and to the country's economy.
–JOHN STEELE GORDON, *American Heritage*

Everything may happen in this country.
–YEVGENY KISELYOV, Soviet TV anchorman

Aide to Liberty

ONE OF Russian President Boris Yeltsin's most improbable links to the far-flung peoples of his republic was an American-run radio station in Munich which broadcast nonstop news back to the Soviet Union. Three Russian correspondents of the U.S. government-backed Radio Liberty, holed up inside the Russian parliament building, fed reports and interviews to the station by telephone. Its broadcasts in Russian and 11 other Soviet languages became Mr. Yeltsin's foremost means of getting his message to the population with the media tightly controlled by the coup leaders. His vibrant call on Monday for a general strike against coup leaders was broadcast within minutes by Radio Liberty to the furthest reaches of the nation.
–BY LESLIE COLITT, *Financial Times*

I WAS totally isolated, 72 hours of total isolation. Everything was turned off, but we found some old receivers in the service quarters and were able to set up antennas—the lads were able to figure out how. We were able to catch some broadcasts and find out what was happening. We got BBC, Radio Liberty, then Voice of America. I want to thank the Soviet and foreign journalists.
–PRESIDENT GORBACHEV, on his confinement during the coup.

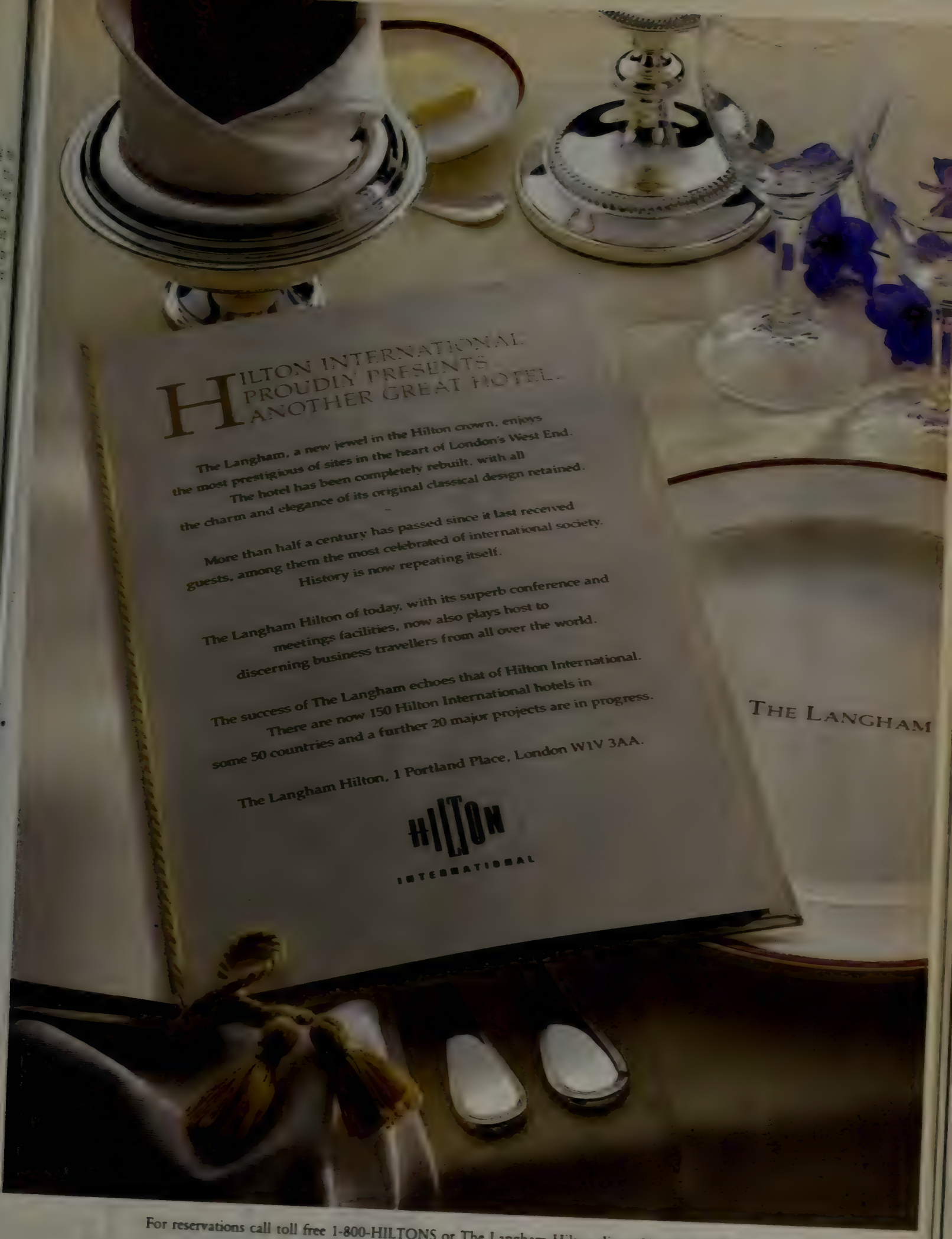
"Timothy, if you never watch TV you'll never know what's going on in the world."

Too Old To Play

THE SUN and the breeze felt good on the baseball field, and Andrew forgot for an hour, but he moved slowly. His arm hurt at the shoulder when he threw, and the boy playing second base called him Mister, which he wouldn't have done even last year, when Andrew was 24.
–IRWIN SHAW, *Main Currents of American Thought*

Too Young To Corrupt

SOME OF THE lobbying in the hours between the votes [on an income-tax budget] had taken place in the open, on the floor of the [Connecticut] House, with all the dignity of shoppers haggling. "This place has become a meat market," said Representative Carl J. Schiessl, a Democrat and income-tax opponent, in telling the House how he had been approached. The emissary had asked what he wanted, he said, adding: "That's the problem. I couldn't think of what I want. I'm too young to be a judge."
–BY GEORGE JUDSON, *New York Times*



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Commentary

on events at home and abroad

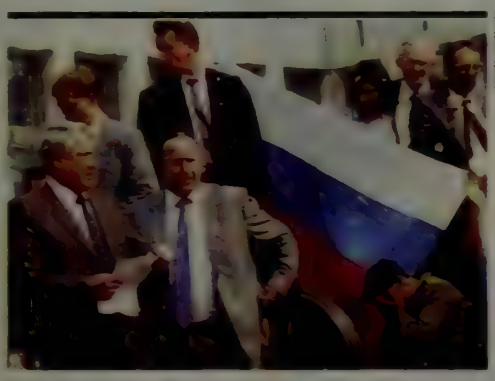
By Caspar W. Weinberger, *Publisher*

YELTSIN AND THE STALINISTS

FROM THE BEGINNING it was apparent that the outcome of the Stalinist coup would turn on the Soviet military: Would they take orders from the old Stalinist group, including the minister of defense, their immediate boss, or would they side with Boris Yeltsin?

Many forgot that an earlier test clearly pointed to their support for Yeltsin: When he overwhelmingly defeated the "official" Gorbachev candidate for president of the huge Russian Republic, it was apparent that large majorities of the troops in the republic had supported Yeltsin.

That alone would not have assured the extraordinary victory he won on Wednesday, when his brave and impassioned pleas to the military not to obey the illegal orders from the coup leaders persuaded many of the armored forces and others to abandon their attempts to seize control of Yeltsin's parliament building. It was Yeltsin's courageous leadership and his willingness to take an unequivocal stand that brought the troops to his side, and thus moved the Soviet Union further along the path to democracy than it has ever been.



A courage to rally around.

If the troops had obeyed the Stalinists' commands, many people trying to protect Yeltsin's "White House" with their bodies would have been killed. Their deaths would have sent a strong negative signal to other freedom lovers that you cannot secure freedom against armed brutality if you are unarmed.

The future will be determined by the extent of Yeltsin's continued control over events. Gorbachev, after having been rescued by Yeltsin's courage and leadership, only reaffirmed his devotion and adherence to communism and socialist economics. He completely failed to understand or admit that the Soviet people hate communism and support leaders like Yeltsin who have the courage to reject it unequivocally. Even after he resigned as General Secretary of the Communist Party, Gorbachev has continued his weak-kneed attempts to combine socialism and market economics.

If Gorbachev is allowed any power in the future, the Soviet Union will continue to be a ripe target for a coup, and the cause of freedom will not be advanced. It was Gorbachev who appointed all the principal conspirators, and Gorbachev who, incredibly, attempted the day after Yeltsin freed him to appoint more of the same breed. So much for "pragmatic compromises." Fortunately, at Yeltsin's insistence, the second round of new appointees are basically sympathetic to Yeltsin and real reform.

That is why it is so vital for the Soviet Union, for us, and for the West to have Yeltsin become the actual leader of the country. We should give all our support to him and those like him, such as Mayor Popov of Moscow, Mayor Sobchak of Leningrad, the leaders of Georgia and the Ukraine, the Baltic leaders and other elected officials who have all unequivocally repudiated communism.

We have spent far too much time and effort trying to keep Gorbachev in power; it is time for us to direct our financial, economic and moral support to Yeltsin. If he takes full power, his promised reforms will make Russia a far more attractive place for the Western investors they so desperately need.

If we do continue to try to prop up Gorbachev, who has not dared to face an election himself, we simply encourage those in the U.S.S.R. who favor adding to their military strength and shoring up Cuba; we encourage those who oppose Yeltsin's proposals for radical economic reform.

One final lesson from these hectic hours: As long as the world is capable of producing such surprises, we will continue to need a strong and ready military. And most of all we urgently need to develop and *deploy* an effective space-based strategic defense against the thousands of Soviet nuclear intercontinental missiles, the control of which was dangerously uncertain for at least 72 hours.

The longer Congress refuses funding for a real defense and instead "compromises" by wasting money on ineffective ground-based defenses against "accidental launches," the more we will tempt others to gain control and perhaps even to use those thousands of nuclear warheads. We have seen how close we came to having the old Soviets back, with the keys to those missiles in their pockets and the world at their mercy. Treaty promises are not much use then.

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Is another ¼% cut in the Fed's cards?

CONTRARY TO POPULAR EXPECTATIONS, the Federal Reserve could soon cut short-term interest rates yet again. One plausible theory in Washington goes like this: July's 6.8% unemployment rate (down from 7% in June) was lower than it should have been, because of a measurement error. The August unemployment figure (due out on Sept. 6) is, therefore, likely to be higher. In a period of mixed signals (in July durable goods orders were up 10.7%, while existing home sales declined by 7%), the Fed will use the gloomy unemployment indicator as the justification to ease rates for the seventh time since December.

According to these Fed watchers, the federal funds rate will be cut by the standard quarter-point, to 5.25%. But this time the Fed may also cut the discount rate by a full half-point, to 5%, to emphasize the move.

There is certainly room for the Fed to cut rates again. The yield curve is not flattening much, but rates at the long end of the bond market are beginning to trend lower. This indicates the credit markets are becoming less worried about inflation.

The dismantling of the Soviet empire and its military means that there could, at last, actually be a peace dividend, with significant cuts in U.S. defense spending. And the dollar has strengthened against the German deutsche mark (and also against the other European currencies pegged to it) by around 12% since this time last year. To date, this has not affected the growing U.S. trade surplus with the European Community, but there are concerns that a stronger dollar would eventually hit exports. In short, cutting interest rates is consistent with steadying the dollar.

Equipment spending, especially on computers, is about to take off

TOTAL CAPITAL SPENDING in the coming 12 months is expected by most economists to increase by around 3% to 4%, barely enough to keep up with inflation. But look inside the total figure, and investment in new equipment is forecast to increase by a relatively robust 9.4% over the coming year, reports Gordon Richards, the National Association of Manufacturers' chief economist.

On its face, that is not much better than the 8% or so growth in new equipment spending that usually follows a recession. But when compared with the much slower than normal recovery in the growth of the economy at large, it can be seen to be pretty good news.

Support for the optimistic view on capital spending comes from Eaton Corp.'s vice president for planning, Adrian T. Dillon. He has long maintained that profits (which remain rather weak) are not a good indicator of companies' willingness to invest. Corporate cash flow is what counts *(see chart)*. "And corporations have been cutting dividends to maintain investment spending," says Dillon.

Even rosier, both Richards and Dillon expect the new spending to be concentrated in computers, automation and telecommunications equipment. This category of spending—which is up from under 30% of total equipment investment in the early 1980s, to around 50% of today's total—will be given an extra boost when IBM begins delivering new models for its Enterprise System/9000 mainframe in the third quarter.

Because the real cost of computers has been plummeting, every dollar invested buys more of them than ever. Thus, volume growth in what's called information processing in the coming 12 months is expected to be around 15%. This will boost productivity growth, especially in the service sector, which is beginning to order automation equipment heavily.

Spending on equipment in the U.S. should now grow faster than in its main industrial rivals. For example, after extremely rapid growth, Japanese companies have pulled back, with a 10% decline in machinery orders in June, as against the same month in 1990.

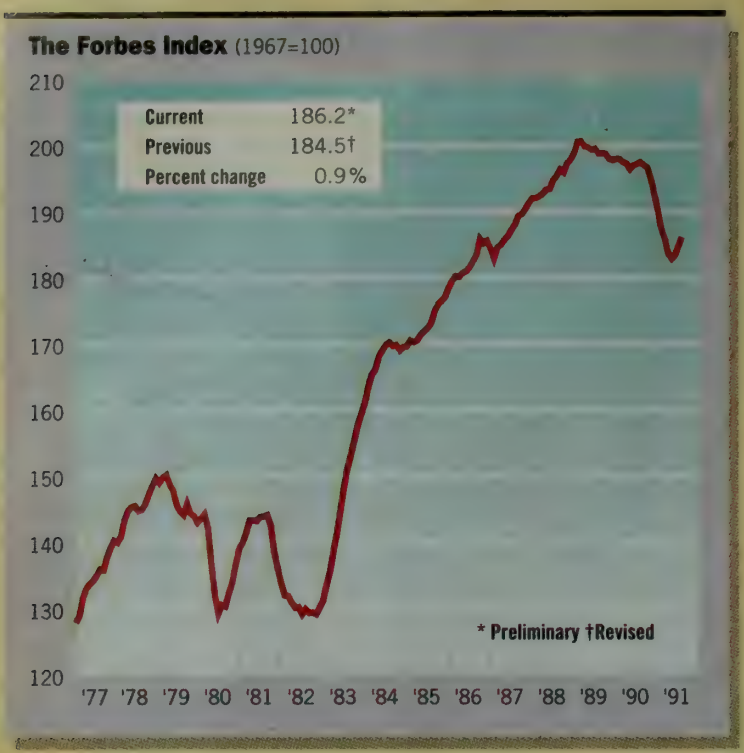
All this reflects substantial improvement in the U.S.' cost of capital *(see What's Ahead, Apr. 30, 1990)*. The U.S.' disadvantage here has steadily been eliminated as U.S. inflation and interest rates have come down. Inflation in the U.S. is expected to be 3.5% in 1992. And the Fed continues to cut rates.

Investment to rise

Cash flow, including dividends, is what drives capital spending. Recently cash flow has improved, supporting predictions that equipment investment will increase 9.4% in the coming year.

THE FORBES INDEX

BY TIMOTHY DODMAN



The Forbes Index shows a preliminary increase of 0.9% for July, following June's 0.5% gain. Good, but not great, as economic recoveries go. During the six months following the two previous recessions, the index averaged monthly gains of 1.5%. From its April 1991 low, however, the Forbes Index's average monthly gain has been 0.6%. One of the economic bright spots is manufacturing. Orders for durable goods jumped 10.7% in July. New housing starts rose 2.1% from June to July. But that leaves them 5% below their July 1990 level.

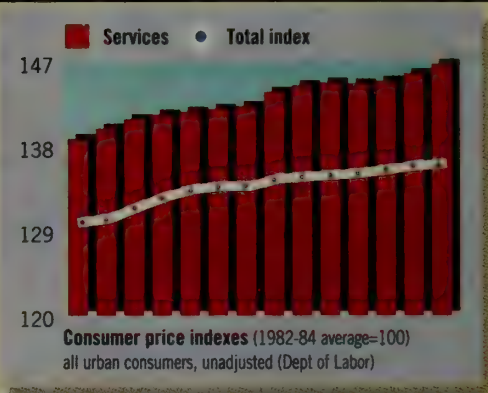
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales year to date vs 1990[1]	Ward's Automotive	-11.0%
Index of leading indicators June vs May	Dept of Commerce	0.5%
Trade balance 12 months ended June 1991	Dept of Commerce	-$84 bil
All-commodity producer price index July vs June[2]	Dept of Labor	-0.3%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	0.4%
M2 (3-month change)—annualized growth[3]	Federal Reserve	1.9%

[1] U.S.-based manufacturers, excludes imports, as of 8/20/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

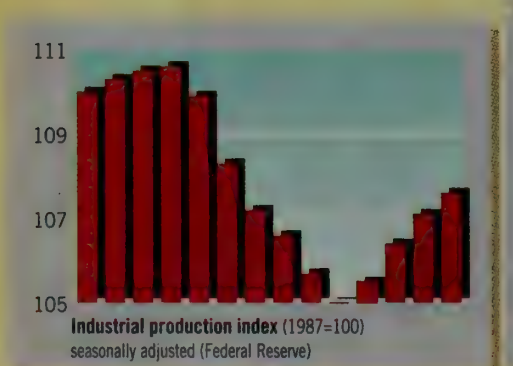
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

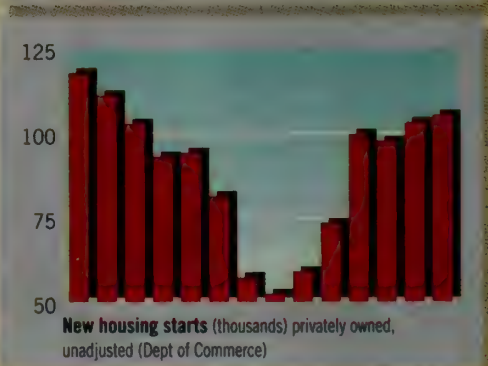


Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

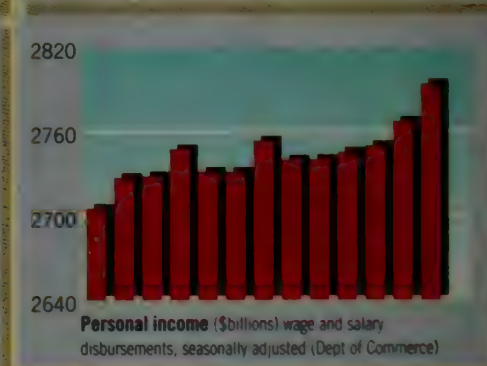
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



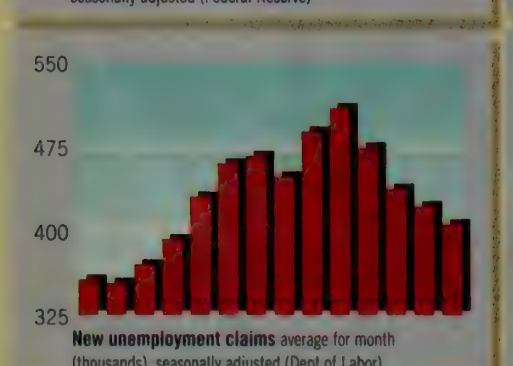
Industrial production index (1987=100) seasonally adjusted (Federal Reserve)



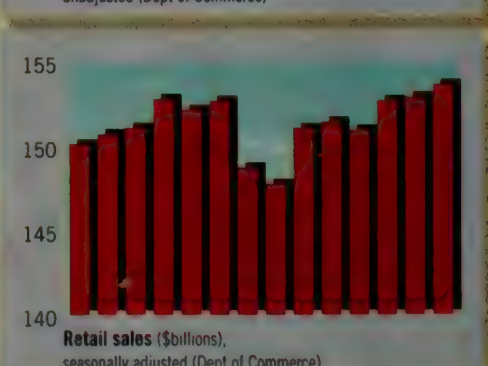
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



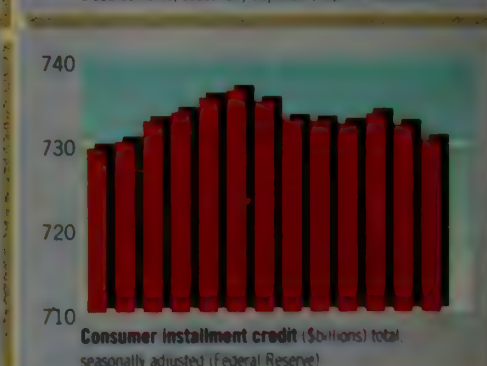
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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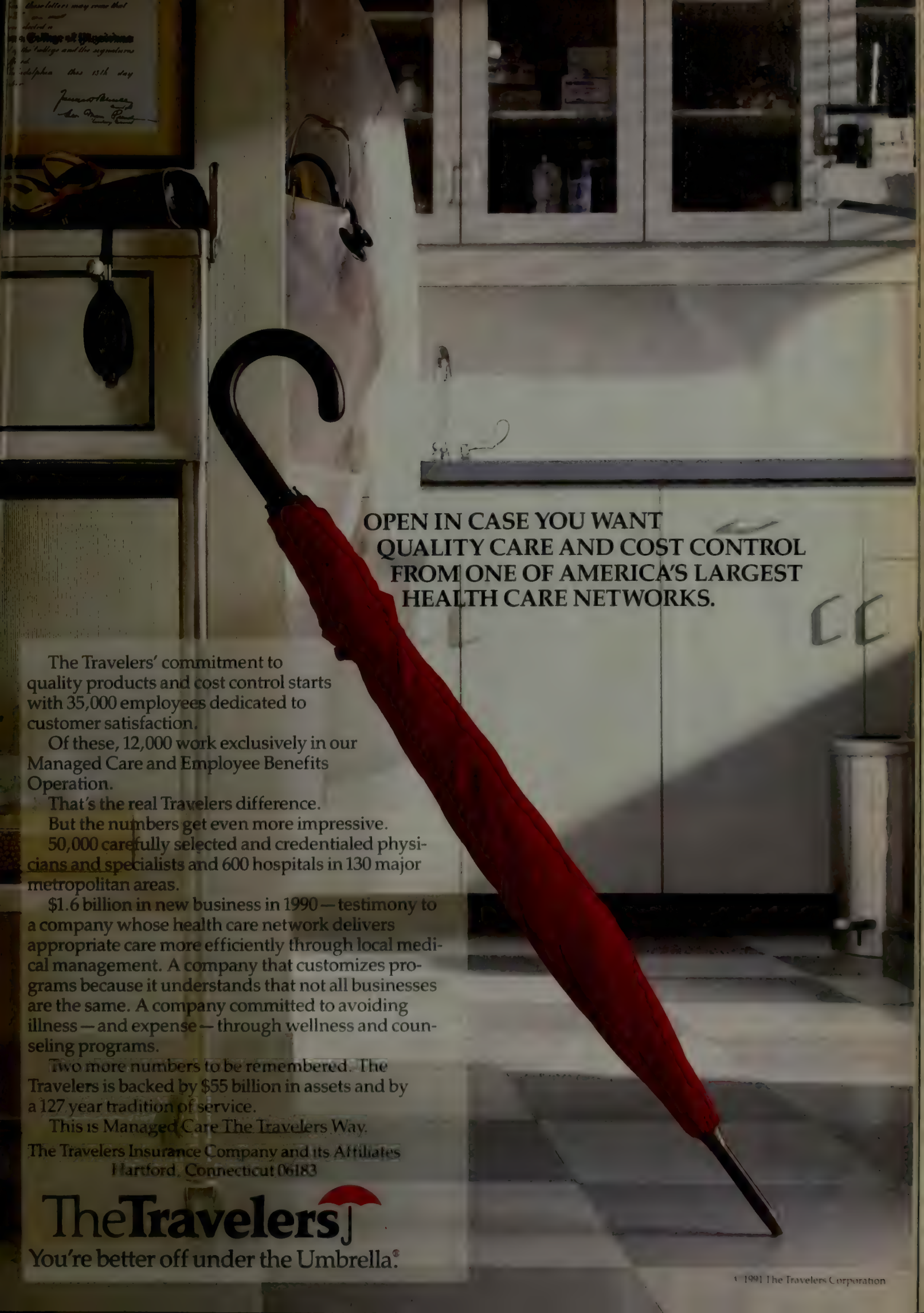
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While Congress haggles over changing our six-decade-old banking laws and the banking brass talks merger, technology is making the system itself obsolete.

Watch out, Citicorp

By David Churbuck

On Aug. 19, when Europe was in turmoil and a hurricane forced a lot of firms in Boston to shut down for the afternoon, calls jammed the switchboards at the Keystone and Scudder fund families. A lot of those callers got only answering machines.

Fidelity Investments' 6 million customers had no trouble getting live operators. This fund giant not only managed to keep its phones staffed, but, more important, it was equipped to weather a storm so bad that no one would be needed to answer the phones at headquarters. Call overloads in Boston are automatically shunted through fiber-optic lines to Fidelity service centers in Cincinnati, Dallas and Salt Lake City.

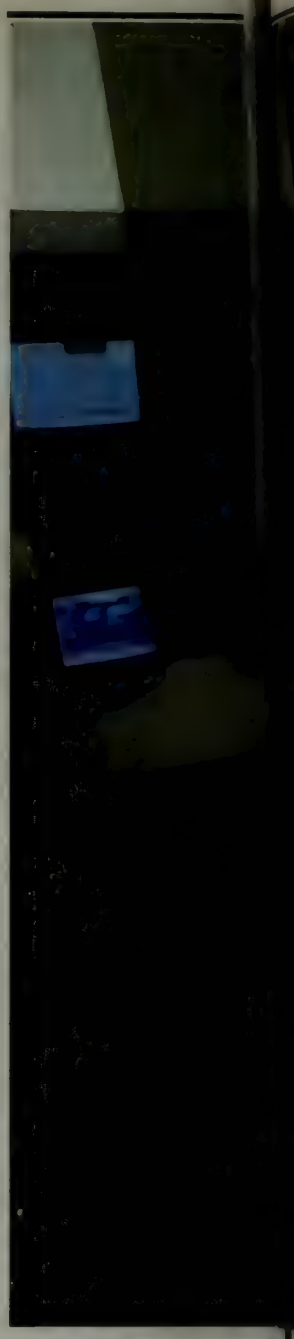
Good news for fund customers. Bad news for the banking industry. Why? Listen to Roger Servison, president of Fidelity Investments' Retail Services: "I don't have a bank account anymore. My paycheck is directly deposited into my Fidelity USA account. I use my Fidelity Visa card to get cash at any ATM. I can borrow against my fund balances. I can transfer money between any of the accounts. Why use a bank? For my mortgage."

Servison is scarcely a disinterested observer, but bankers will have great difficulty countering his argument. Fidelity Investments, the privately held Boston financial giant with $137 billion in assets under management, is a lot more than a mutual fund company. It is a bank in all but name. The Glass-Steagall Act divorced investment and commercial banking. But Fidelity's $1-billion-plus investment in data processing and telephone equipment has made that old distinction irrelevant.

Ask the lawyers about why Fidelity is not a bank, and they will answer that Fidelity doesn't take deposits or make commercial loans. Legally, no. But look again at Fidelity as a financial intermediary. It takes money from lenders—who are called not depositors but mutual fund shareholders. It lends the money out to the U.S. Treasury and to corporate and other borrowers—except that these lendings aren't called loans; they are called stocks, bonds, Ginnie Maes and commercial paper. All these instruments are held in Fidelity's range of nearly 200 funds.

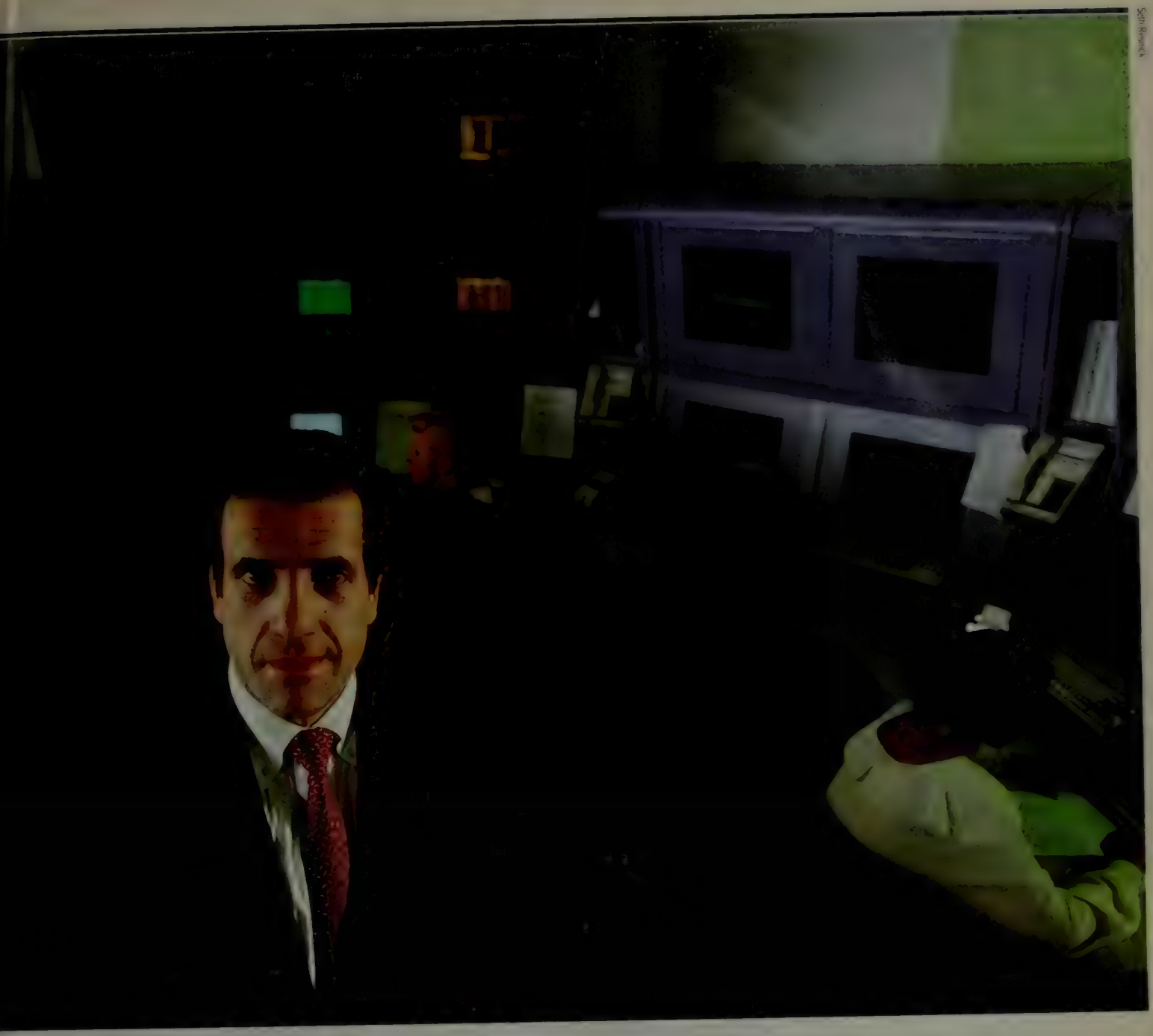
If you cut through to the economic substance of these transactions, you see that the main difference between Fidelity and Citicorp is that Fidelity's funds are not government guaranteed while Citicorp's deposits are.

Fidelity crossed the line from being an investment firm to a bank in 1983 when it began offering its USA checking service to customers with a minimum of $25,000 on account. Fidelity processes its own checks, using its own high-speed optical character scanners, and is looking at ways to save money by substituting pictures of the checks for the real thing with the monthly statement.



Albert Aiello Jr. of Fidelity Systems Co. **If Boston ever gets snowed in, you can talk to Salt Lake City or Cincinnati.**

The cash on deposit in the Fidelity account—excuse us, the money invested in the money fund—earns 5.6%, better than the 4% rate on Citicorp checking accounts. Both Fidelity and Citi will take deposits of checks; both have ATM networks for getting cash; both offer discount brokerage services. You can get mutual funds at Citi, but the house brand, the Landmark fund family, is very limited. Citi will sell you other funds—including Fidelity funds—through its brokerage division, but you have to pay a sales commission, even if the fund is no-load when bought directly. But Citi beats Fidelity on other fees: Its 4% checking account is free to depositors with at least $5,000 either on deposit or in a Landmark fund,



Seth Resnick

while the Fidelity USA account costs $60 a year.

Note that it wasn't Congress that permitted an investment firm to become a near-bank. It was technology. Fidelity spent over $1 billion through 1989 and another $150 million last year (13% of revenues) to ensure that its computers and communications networks are every bit as sophisticated as those of the big banks like Citicorp whose customers it wants.

Albert Aiello Jr., president of Fidelity Systems Co., oversees an 850-person technical staff charged with designing and maintaining a computer system. Aiello's machines can tie all the company's customer account information together with its marketing, customer service and back-office operations.

Is Fidelity an investment firm or a bank technology firm? Consider this: Fidelity has 233 securities analysts and support staff, traders and portfolio managers on its payroll. But Aiello supervises 450 programmers.

Fidelity's computer system runs over a network of high-speed fiber-optic and high-capacity leased phone lines linking branch offices and data centers across the country. The company has a computing capacity of about 500 million instructions per second—that's counting only its 6 IBM 3090 mainframes, 10 Digital VAX minicomputers, 10 IBM AS/400 mid-range computers and 6 Stratus fault-tolerant minis. In addition to all that big iron, Fidelity uses 200 Sun workstations as well as 3,500 personal computers.

Is all this technology really worth it? Hurricane Bob is one small justification. More significant, Fidelity's volume of customer service justifies the expenditures. The system handles 106,000 phone calls per day, and processes 104,109 customer transactions per day.

This is the essence of the business that Edward C. Johnson 3d, the chief executive and majority owner of Fidelity, is in—servicing accounts. Managing money is almost secondary to that. In the end, its customer-handling capabilities may be far more important to the future of Fidelity than whether the Fidelity Magellan Fund goes up or down.

Seth Resnick

Scanning checks and reviewing Fidelity accounts

Note that it wasn't an act of Congress that permitted an investment firm to become a near-bank. It was technology.

To pay for this technology spree, Johnson has cut deeply into his profit margin. His company netted $32 million last year, a tiny 0.027% of average assets under management. Franklin Resources, a traditional fund house based in San Mateo, Calif., netted 0.19% of average assets.

Clearly, Fidelity is betting on the long run. It was one of the first companies in the mutual fund industry to embrace computers in the 1960s. Today there is so much computing capacity on the network that Fidelity sells what it can't use. It handles back-office accounting functions for small investment firms and manages corporate 401(k) plans.

Fidelity operates a bit like the Japanese economy: It develops a data-processing idea in-house, applies it to the job of cutting costs for Fidelity, then amortizes the research and development costs by offering the services to the world at large.

For example, Aiello's department developed a proxy solicitation service for internal use, since Fidelity voted approximately 30,000 ballots on 2,800 different securities in 1990. Today Fidelity is marketing it to 150 other firms. It's called Proxy Edge, a personal-computer-based system.

Fidelity is now putting technology at the fingertips of its customers, allowing the customer to track the status of the account with a phone call. The future version of the system will permit customers who own personal computers and the right Fidelity software to execute their own buy and sell orders. In this, Fidelity is not the leader. A similar system is already in operation at rival discount broker Charles Schwab.

A lot of the technology is aimed at helping the customer-service phone reps, who are Fidelity's main interface with the public. While Fidelity doesn't want to do away with live operators, it does want to cut the amount of time a caller is put on hold waiting for a piece of information. Mainframes and dumb terminals were used in the past to call up account information.

Today customer service reps typically sit before an IBM PC running Microsoft Windows and a selection of custom software programs. These put at the rep's fingertips everything from a database of stock symbols to the customer's account to the latest news feeds from Dow Jones and Reuters.

Before a new idea is put on the desk of a Fidelity staffer, it is tested in action by Clive Moss, vice president of technologies. In a "usability lab" situated in the firm's customer-service department, the firm's researchers, trainers and retail marketing staff videotape brokers working with experimental systems. They film brokers' hand movements and record their voices, while simultaneously saving copies of the computer screens. They then merge all three together for analysis of screen layouts, procedure and other ergonomic factors.

What's next? Fidelity is looking into automatic number identification for retrieving investor records as soon as the customer enters his password on a touch-tone phone; a voice confirmation system that reads back a customer's order from a discount broker's PC before executing the transaction; a just-in-time fund prospectus printing service that will allow someone shopping for a fund to request it via touch-tone phone, have the prospectus printed on a laser printer and then mailed. It is also working on a merger of computer and mailing technology for targeted mailings, ensuring that inserts will target an individual's investment history.

Selling mutual funds isn't banking, issuing credit cards isn't banking, offering a checking account isn't banking, stocking teller machines isn't banking. But tie them all together with computers and phone lines, and you have something that looks very much like banking. The only thing missing is the business of making commercial loans with Fidelity's own assets. Considering what is happening to the banks' commercial loans these days, this is an advantage for Fidelity, not a drawback.

In settling an old score with Rolls-Royce, Brian Rowe has put GE in a great position to power many of Boeing's next generation of jetliners.

Full thrust

By Howard Banks

IT TOOK five years for Brian H. Rowe, senior vice president of GE's aircraft engine business, to get even with rival Rolls-Royce. But he did it in mid-August when GE won a $680 million order from British Airways to power up to 30 Boeing 777s. The twin-engine 777s, to be introduced into service in May 1995, will carry over 300 passengers up to 7,300 miles.

The spat goes back to a mid-1980s joint venture between GE and Rolls. Under it, the American company was to make engines for larger planes, like Boeing's 747, while Britain's Rolls-Royce would concentrate on engines for the smaller Boeing 757. But in 1986 Rolls snatched a major order from British Airways for engines for some 747s, an order GE thought it was going to get.

At the time, Rowe was spitting mad, and the collaboration deal with Rolls quickly collapsed. That's why last month's victory tastes especially sweet. But beating out Rolls for BA's 777 engine order is more important to Rowe and GE than settling an old score. The world market for these new twin-engine, long-distance planes is growing rapidly. BA, for instance, hadn't shown much interest in big twins until early this summer, when it was faced with tough competition from United Airlines and American Airlines, which now have access to British airports. On routes with less traffic—Chicago to Manchester, for example—the U.S. carriers fly twins, usually Boeing 767s, which are cheaper to operate than BA's older 747s, TriStars and DC-10s. This means that the American carriers can afford to charge lower fares.

GE had launched an all-new engine, the GE90, at an upfront investment of nearly $2 billion, aimed specifically at the 777 market. A larger engine than either comparable Pratt & Whitney or Rolls engines, the GE90 will fit all versions of the 777, including upcoming stretches. It will also be suitable to push later stretch versions of Airbus Industrie's Airbus A330. (GE's partner on the GE90 engine is Snecma of France.)

But when United placed the first order for 777s, it chose Pratt & Whitney's rival engine. All Nippon Airways has ordered the Boeing jet but has not yet selected the engines. If BA had chosen Rolls-Royce engines, then, as third engine supplier to the 777 program, GE would have been at a serious disadvantage.

"It became imperative that we win the BA order," says Rowe. Otherwise GE might have canceled the GE90.

Winning, too, has helped rekindle morale at GE's jet engine business, the company's most profitable manufacturing operation (with $1.3 billion operating profit on $7.6 billion in revenues in 1990). The division had recently lost the competition to power the U.S. Air Force's new advanced tactical fighter. "I was very disappointed we lost that one," says Rowe.

So did GE set out to win the BA order at any price? Rowe says no. "This one was equal to any other launch deal," he avers. But any launch order is costly to the manufacturer since it typically includes free training, some initial spare parts, and a severely cut price. And as part of the BA contract, GE also agreed to buy BA's engine maintenance shop near Cardiff, in Wales.

GE paid a generous $460 million, up front and in cash. Rowe justifies the price on two grounds: One, maintenance is a growing business; two, the Welsh unit will allow GE to offer airlines maintenance on their Pratt & Whitney and Rolls-Royce engines, alongside their GE engines. GE has not been able to offer this expanded service before.

Over the coming months lie battles to win Boeing 777 engine orders from All Nippon, Qantas of Australia, and American and Delta. Rowe believes that, thanks to the BA order, the GE90 is now a serious contender. "It would have been nice [to have beat Pratt & Whitney] to be number one," says Rowe, still savoring his victory over Rolls. "But this is great!"

Andy Sewell/BBA

Brian Rowe, head of GE's aircraft engine business **"Beating Rolls-Royce to get this British Airways order was a nice cup of tea."**

Dwayne Andreas and ADM know how to use tax breaks and congressional mandates to smooth the cycles in a commodity business.

Plowing Washington for profit

By Marcia Berss

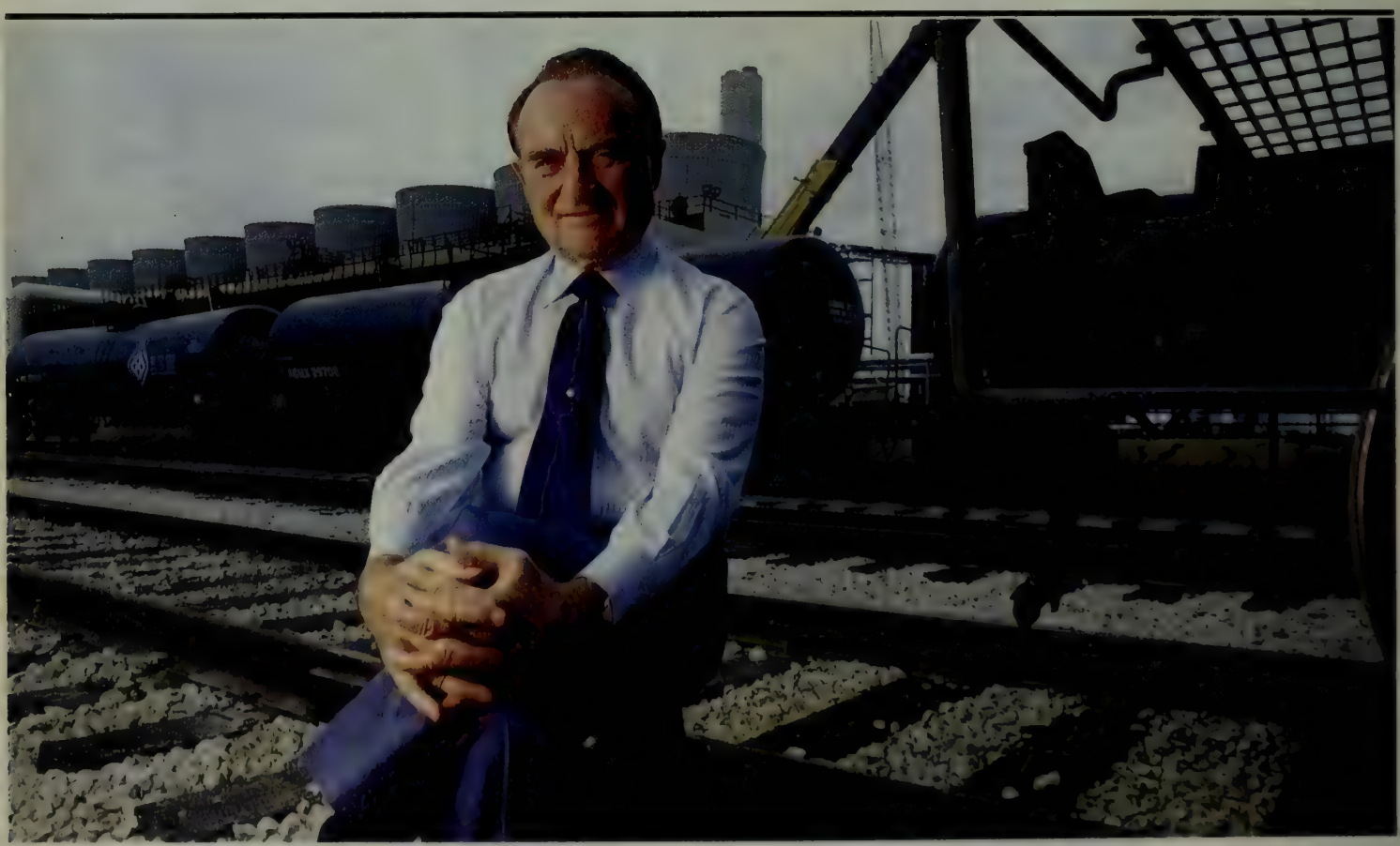
AUGUST RAIN in corn country came too late to save much of this year's crop. Result: Corn is now $2.50 a bushel, near the 1988 drought average price. The Agriculture Department forecasts the lowest corn stockpile in seven years.

You might think that these high raw material prices spell trouble for Archer Daniels Midland, based in Decatur, Ill. But that isn't the case. At $8.5 billion (sales), it is the nation's largest grain processor, and about half its earnings come from corn. In bone-dry 1988 ADM's profits rose over 20%. Its 1992 earnings (fiscal year ends June 30) are expected to be up 17%.

Commodities, and commodity-based businesses, are notoriously cyclical and low growth. ADM, headed by Chief Executive Dwayne Andreas since 1970, is neither. The 4% dip in earnings per share last year, to $1.49 (because of tight soybean margins and acquisitions), was the first decline after seven years of 25% annual compound growth. Contrast ADM's 9.1% average return on capital between 1984 and 1990 with the 6.8% achieved by its biggest competitor, $46 billion (sales) Cargill.

How does Andreas do it? Partly it's pragmatism. Some rivals have resisted working with farm cooperatives, objecting to their tax-free status. Andreas, once head of a wheat co-op, has no such grudges; he has made co-ops partners.

Andreas knows that the secret to profitability in a commodity business is finding ways to add value: ADM processes more grain into higher-value-added goods, such as corn-based fructose, the major soft-drink sweetener, which is now about 40% of ADM's earnings. Cargill ships more



Dwayne Andreas, Archer Daniels Midland's chief executive

Governments all over the world intervene in agriculture, but he works with them.

unprocessed grain, which is obviously less profitable.

But above all, Andreas has made an art form out of plowing Washington for markets, tax breaks and subsidies. He says: "We don't fight it. We work with the government." Government intervention in agriculture may make poor public policy, but ADM shareholders must love it. ADM's stock was in the top 8% performers over the last five years.

Nowhere is his skillful playing of Congress and the White House more evident than in the existence of ethanol, used because it is said to reduce automobile pollution. The corn-derived gasoline additive is, however, bought by oil companies mostly because the clean air law, lobbied for by ADM, says it must be bought and because tax breaks, also lobbied for by ADM, lower its cost.

Ethanol is much more important to ADM than the 10% it represents of sales and earnings. Its production meshes neatly with all-important fructose. When soft-drink sales fall in winter, and fructose demand drops, ethanol demand rises. Two-thirds of the equipment the company uses to make ethanol is shared with fructose production. So ADM grinds corn year-round while competitors involved only in fructose must slow operations. Thus ADM is the low-cost fructose maker, price leader and market leader, with a 31% share. Its ethanol share: 68%, though in a much smaller market.

It is debatable whether ethanol really does reduce air pollution (FORBES, *May 27*). And without the tax break, ethanol costs 30% more to make than the rival additive—called MTBE—made from fossil fuel, and today favored by the oil companies. So why does Congress continue the tax breaks? Because Andreas knows how to play politics, rallying forces with the farmers and environmental lobby. The tax credits, recently extended to the year 2000 by Congress, make ethanol about 30% cheaper.

Even if realism triumphs over politics and ethanol loses its tax breaks, ADM won't be much the loser. Most of its $300 million investment is written down. But neither does Andreas plan to expand ethanol capacity; instead, every inch the pragmatist, he has paid $195 million for 5% of Arco Chemical, the spinoff of oil firm Atlantic Richfield and the leading maker of the MTBE additive.

Andreas explains this hedging, noting that by 1997, as clean-air rules toughen, his higher-oxygen product will look cheap and Arco Chemical will switch from making MTBE to ETBE, an ethanol-based version.

Archer Daniels Midland plant near Rotterdam

For Europe, "50 years of boom times."

"They will be our biggest customer," he predicts. "They'll tell you they'll never do that, but it's like Coca-Cola saying they'd never use fructose."

He's sanguine about the all-important fructose market. A decade ago soft drinks were made from sugar, until fructose, costing 30% below price-supported domestic sugar, forced its way into the market. But what if the U.S. government freed sugar prices? Says Andreas: "Three consecutive presidents have said we will advocate a free market in sugar if the European Economic Community does. If so, our business would improve, because there are at least 6 million tons of sugar produced in Europe that cost twice as much to produce as fructose."

In fact, he is playing sugar/fructose both ways. ADM owns 8% of British sugar giant Tate & Lyle, which owns A.E. Staley, number two (24% share) in fructose and ADM's neighbor in Decatur.

At age 73, when most public company chief executives are retired, Andreas seems to be gaining energy. He's planning a new arm for ADM in biochemicals, feed additives to boost livestock production. He claims biochemicals will generate about a third of ADM profits by 1997. He also sees big opportunities in Europe, where there will be "50 years of boom times," he says. "We see Europe shaping up as one common market from London to Vladivostock. By 1995 you'll see it pretty complete."

In addition to the Tate & Lyle and Arco Chemical stakes, ADM owns half of Alfred C. Toepfer International, a European grain trader. It handles 45% of Eastern Europe's agricultural imports from Western countries, and is a partner of European farm co-ops. "They have a wonderful political presence in those socialist countries," he says.

Andreas' own East bloc connections go back a long way and to the top. He has been doing business with former agriculture minister Mikhail Gorbachev since 1983. The communist and the centimillionaire (Andreas owns 4.3% of ADM, worth $310 million) got on well together. Robert Strauss just left ADM's board to become Soviet ambassador. Strauss is being replaced on the board by Warren Buffett's son. Andreas clearly wants board members who can gain him influence as well as give him advice.

Andreas irks some investors by maintaining a paltry cash dividend. ADM's 9-cent-a-share payout is a yield of only 0.4%, just 6% of earnings. It's not that ADM needs to husband its cash: The balance sheet is clean, with debt at 22% of capital. Cash and investments are 30% of assets. Cash flow runs about $725 million. Replies Andreas to criticism of his payout (which includes a 5% stock dividend): "I'm a shareholder and I'm not crazy. We make money, pay a 30% tax. Give it to shareholders and they pay another 30% tax. We can reinvest that money to the shareholders' advantage." As we said, Dwayne Andreas is every inch the pragmatist.

Last year McDonald's consumed cash faster than it generated it. How long will the mighty fast-food company continue consuming its own accumulated wealth?

R. McDonald, CPA

By Dana Wechsler Linden

REMEMBER what happened last summer when McDonald's Corp.'s second-quarter earnings came in a penny under analysts' estimates? The stock dropped 12% in two days, pulling the broader market down with it.

Analysts and others were worried that the big (1990 revenues, $6.6 billion) fast-food company was running out of steam: Competition was cutting into McDonald's market share, squeezing sales growth and profit margins.

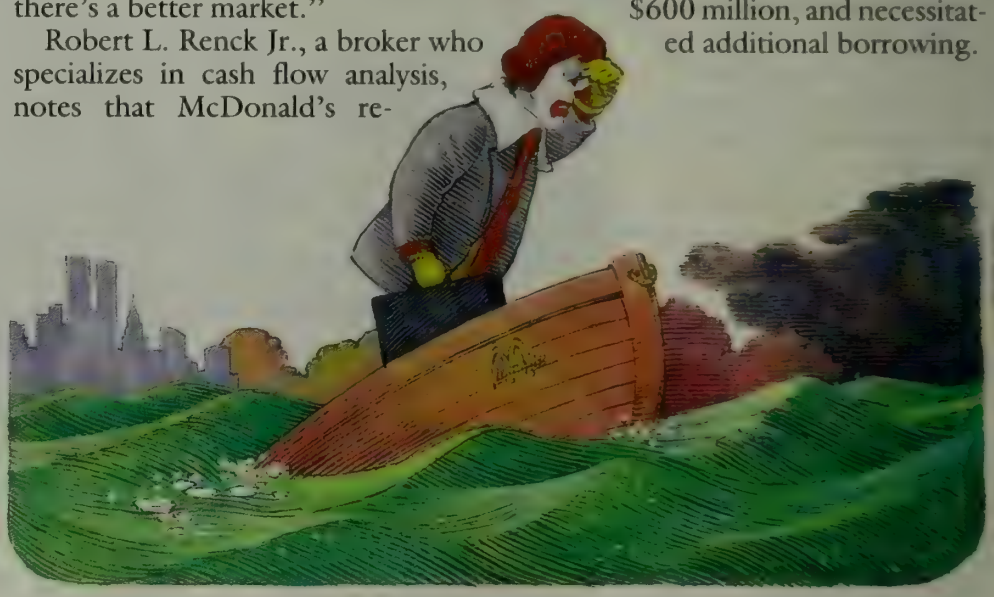
But the jitters quickly subsided. Last year the company reported net income of $802 million on $6.6 billion of revenues—both up approximately 10% from the year before. In the first six months of this year, earnings increased 7% over the same period last year, to $400 million. Shares of McDonald's stock climbed back up to 36 in April, almost to its prior year's high of 38½. Optimists talk of new growth from the proliferation of Golden Arches abroad.

So is everything all right? Skeptics remain. "Accounting games," says Robert Gay, quantitative analyst at Donaldson, Lufkin & Jenrette, are "obscuring how terrible things are in terms of [McDonald's] sales growth and margins."

Games? McDonald's started selling off more company-owned restaurants as domestic sales went softer. Gains from the sales jumped from $37 million in 1989 to $61 million in 1990, accounting for most of McDonald's $75 million increase in net income. In the first half of this year, gains from sales of restaurants came to $36 million, compared with an increase in net income of only $27 million.

As a franchisor, McDonald's says these gains are operating income. Generally accepted accounting principles support this claim. But skeptic Gay has a point when he says: "Essentially you're selling off shareholder wealth. They should at least wait until there's a better market."

Robert L. Renck Jr., a broker who specializes in cash flow analysis, notes that McDonald's received $131 million cash from sales of restaurants and that 300 restaurants were sold. That works out to an average of $436,000 per store—30% of the previous year's revenues of an average store. A longtime rule of thumb in the fast-food industry is that stores are sold for between 50% and 90% of revenues. Is the current market for McDonald's restaurants that bad?



Don't jump to conclusions, says Sharon Vuinovich, McDonald's vice president of investor relations. Sometimes the company takes back notes from store buyers in lieu of cash. So what are the right numbers? She won't say. "You can't get them from the annual report," says Vuinovich. "McDonald's stores are a private market."

One real surprise, says Renck, is "the magnitude of cash McDonald's needs to consume every year to continue the earnings."

Through last year, the company plowed all of its operating cash flow into capital spending—meaning the business was consuming cash at least as fast as it was generating it. Faster, in fact. Debt—as a percentage of capitalization—rose from a recent low of 39% in 1984 to 53%.

Why did debt increase? Last year, for example, cash flow from operations was $1.3 billion, while $1.1 billion was spent to build 641 new stores and another $500 million went for other capital expenditures. Add to that figure $133 million in dividends and $160 million to repurchase stock. Thus the cash shortfall totaled nearly $600 million, and necessitated additional borrowing.

Skeptic Renck claims McDonald's appears to fall far short of its AA credit rating from Standard & Poor's. Not so, says Gerald Hirschberg, who oversees S&P's ratings for retailers. "We don't dispute that the trend for the numbers has been down. But we're confident that this period of tough competition will come to an end. And that management has plans that have a good chance of succeeding."

These plans include a cut in capital spending to the level of increased operating cash flow this year. The company is also shifting more investment spending to its international business, which accounts for about a third of profits and sales and where competition, so far, is less severe than at home.

Who is right? The skeptics? Or the believers? Until the international business grows big enough to offset the troubles at home—which could take years—we'd say McDonald's is in for some tough times. ■

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Hit 'em hardest with the mostest

By Subrata N. Chakravarty

"WHEN WE FIRST began to fly outside Texas I got a letter from a congressman," recalls Southwest Airlines Co.'s cofounder and chief executive, Herb Kelleher, with a chuckle. "He wrote: 'Herbie, you're going to destroy Southwest Airlines, flying outside Texas.' I wrote back: 'Congressman, Man, not God, ordained the boundaries of the State of Texas.' "

Southwest's boundaries now extend as far as Detroit in the East and San Francisco in the West, and its revenues have grown from $81 million to $1.2 billion since deregulation allowed it to extend its routes in 1978, but Kelleher's scrappy, offbeat airline hasn't lost its Texas touch. Southwest got into the air 20 years ago after a 3-year legal battle with Braniff, Texas International and Continental over its right to fly. Back then it had 4 planes flying between Dallas, Houston and San Antonio. Today it has 120 aircraft serving 32 cities in 14 states. Put this prediction in your notebook: Southwest is going to be one of the airlines that will survive the airline deregulation wars of the 1980s and 1990s, which have already claimed such once proud airlines as Eastern and Braniff and humbled even once mighty Pan Am.

Southwest has turned a profit throughout the wars and was one of the handful of airlines profitable last year, when even American lost money. Southwest earned $47 million, despite a small loss in the fourth quarter. Only Delta and United made more money, but Delta has seven times and UAL nine times Southwest's revenues—and both had lower margins. Southwest had another small loss in 1991's first quarter, but was in the black in the second quarter.

This strength is not an accident or the product of luck. "We may be flamboyant marketers, but we're conservative financially," Kelleher explains. Southwest's $327 million in long-term debt in 1990 was 54% of equity, compared with an industry average of almost 375%, and its pretax earnings covered interest charges twice over. Based on 20 measures, Salomon Brothers' analyst Julius Maldutis rated Southwest second only to Delta in financial strength in 1990.

"We realized that, on an average of twice a decade, you're going to be faced with difficult times. I tell the people here that we must always manage so that we do well in bad times," says Kelleher. That's another way of saying that, no matter how good things may look, you should not let your spending get out of control.

As America West and USAir have cut service for financial reasons, Southwest has had the wherewithal to expand into the routes they were forced to abandon.

Southwest succeeds with an approach that is entirely different from that of any other airline. It has spent two decades carving out a unique niche among U.S. airlines, one that others have tried to copy but have never duplicated. It is the nation's only high-frequency, short-distance, low-fare airline. Southwest has 83 flights a day between Dallas and Houston, for example.

Southwest Airlines' Herb Kelleher
Zaniness as a competitive weapon.

Southwest never allowed success to seduce it into straying from that niche strategy. It did not, for example, decide to fly to Europe or get into a head-to-head competition with larger airlines, playing by their rules. "You

have to exercise a certain amount of judgment with respect to what you're capable of and what you're not," says Kelleher. "Sometimes the best way to fight is on the flank, not in the center of the activity where your opponent masses its own force."

Kelleher freely acknowledges that Southwest has not added a great many cities to its schedule since 1981, when he left his law firm to become chief executive. "But we attack a city with a lot of flights, which is another form of aggression in the airline industry," he explains. "We won't go in with just 1 or 2 flights. We'll go in with 10 or 12. That eats up a lot of airplanes and capacity, so you can't open a lot of cities." Call it a kind of guerrilla warfare against bigger opponents. You hit them with everything you've got in one or two places instead of trying to fight them everywhere.

All of Southwest's flights are under two hours in flying time, and many are under an hour. Prices are always rock-bottom. When Braniff's price between Dallas and Houston was $62, Southwest's cheapest fare was just $15. When it began to fly in California, its prices were about one-third the prevailing prices on the routes.

The reason that Southwest flies such short distances and offers fares so much lower than other airlines is simple. Kelleher does not see other airlines as his principal competition. "We're competing with the automobile, not the airlines," he explains. "We're pricing ourselves aginst Ford, Chrysler, GM, Toyota and Nissan. The traffic is already there, but it's on the ground. We take it off the highway and put it in the airplane." Air traffic tends to double or triple when Southwest enters a market, as travelers are lured out of their cars and into the air by the low prices. The greater the

Shamu 1, one of three Southwest Airlines Boeing 737s painted to look like Sea World's whale mascot

"What about its manure?" asked American's Robert Crandall. "I will feed it to a Yankee," said Kelleher.

distance or the higher the price, however, the less the shift.

To offer those remarkably low ticket prices, Southwest must tightly control costs. Southwest has the lowest costs in the industry by far, according to numbers provided by Salomon's Maldutis. Look at operating costs per available seat mile—the total number of seats in a plane, multiplied by the distance flown. In the first quarter of 1991 Southwest's were 15% lower than those of its nearest competitor, America West, 29% lower than Delta's, 32% lower than United's and 39% lower than USAir's.

Southwest achieves those lower costs in a number of ways. Since it flies short distances, all of Southwest's aircraft are Boeing 737s. Using a single aircraft type saves significantly on training, maintenance and inventory costs. And, since a plane earns revenues only when it is in the air, Southwest gets its aircraft into and out of the gate faster than anyone else. While other airlines take upwards of an hour to unload passengers, clean and service planes and board passengers, fully 70% of Southwest's flights have a turnaround time of 15 minutes, and 10% have turnarounds of 10 minutes. That is not just a goal; it really happens *(see table, p. 54)*.

Southwest flights offer peanuts and drinks but no meals. Besides adding to costs, meal service is impractical on short hops. Boarding passes are reusable plastic cards and, to save boarding time, there is no assigned seating. To cut costs even more, Southwest doesn't subscribe to any centralized reservation system. To save investment in labor and equipment, Southwest doesn't even transfer baggage to other carriers. That's the passengers' responsibility.

A key factor in keeping costs low is the productivity of Southwest's employees. Unlike many of the airlines that sprang up under deregulation, Southwest's employees are unionized. But by not having an antagonistic relationship with the unions as, for example, Frank Lorenzo did at Eastern, Southwest has negotiated flexible work rules. To speed up turnaround time, flight attendants and even pilots pick up the trash left behind on planes, for example. Cleaning crews come on board only at the end of the day. "Our employees have been very cooperative," says Kelleher. "They see Southwest as an ongoing institution, so they're thinking about 2010, not next Wednesday."

From the start, Southwest has been leanly staffed. It does not, for example, hire extravagantly when times are good and lay off people when times get tough. "We don't furlough anybody, so we have to be lean all the time," says Kelleher. That loyalty is returned. When fuel costs began to skyrocket in the wake of Iraq's invasion of Kuwait, about a third of Southwest's 8,600 employees took voluntary deductions from their pay to buy aviation fuel for the airline. Kelleher says he didn't know about the "Fuel from the Heart" program until he received a banner signed by all those who had made pledges. "It wasn't so much the money as the attitude that I loved," he says. "It indicated that the spirit of Southwest Airlines was alive."

Spirit or esprit is hard to define and hard to measure. Southwest has it. It has, from the start, striven to impart a sense of fun both to its employees and to its passengers. "I've always felt that there's no reason that work has to be suffused with seriousness, that professionalism can be worn lightly," Kelleher declares. "Fun is a stimulant to people. They enjoy their work more and work more productively."

Combining high seriousness with a sense of fun comes naturally to Herb Kelleher. Born in New Jersey, he went to Wesleyan University in Connecticut, graduating cum laude. "He went through class effortlessly, but he was an oversized pixie," recalls Wilson Seibert, an advertising executive who was a fraternity brother of Kelleher's at Delta Kappa Epsilon. "DKE was known as the 'Mother of Jollity,' and Herb was the Jolly Green Giant. He had a collection of dumb hats which he wore naturally."

When Southwest started flying in 1971, its flight attendants wore hot

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Anatomy of a 15-minute turnaround

7:55	Ground crew chat around gate position
8:03:30	Ground crew alerted, move to their vehicles
8:04	Plane begins to pull into gate; crew move toward plane
8:04:30	Plane stops; jetway telescopes out; baggage door opens
8:06:30	Baggage unloaded; refueling and other servicing under way
8:07	Passengers off plane
8:08	Boarding call; baggage loading, refueling complete
8:10	Boarding complete; most of ground crew leave
8:15	Jetway retracts
8:15:30	Pushback from gate
8:18	Pushback tractor disengages; plane leaves for runway

On a recent weekday a Southwest Airlines flight arrived at New Orleans from Houston. The scheduled arrival time was 8:00 a.m., and departure for Birmingham, Ala. was 8:15 a.m. FORBES clocked the turnaround, half-minute by half-minute.

pants and boots. Those have now given way to shorts, casual shirts and sneakers. On-board antics range from the zany (contests for the largest holes in socks and stockings, doing the safety briefing to a rap beat) to the mildly outrageous ("As soon as y'all set both cheeks on your seats, we can get this ol' bird moving," is one quoted cockpit announcement). Kelleher has visited Southwest's maintenance hangars at 2 a.m. dressed in drag as Klinger from the TV show *M A S H*. He has flown on Easter in an Easter bunny costume, handing out peanuts and exercising his Irish charm on passengers.

The humor has a serious purpose. Kelleher explains: "What's important is that a customer should get off the airplane feeling: 'I didn't just get from A to B. I had one of the most pleasant experiences I ever had and I'll be back for that reason.' "

Maintaining such camaraderie gets harder as organizations grow, but so far, Southwest seems to have managed it by being extremely selective in its hiring practices. "[Former Dallas Cowboys head coach] Tom Landry once said that he drafted great athletes and taught them how to play tackle or linebacker," says Kelleher. "We draft great attitudes. If you don't have a good attitude, we don't want you, no matter how skilled you are. We can change skill levels through training. We can't change attitude."

This year Southwest should overtake the liquidated Eastern Air Lines, the now shrunken Pan Am and the reorganizing America West to rank as the eighth-largest airline in the U.S. At a recent price of 24¾, Southwest stock sells at 29 times the 85 cents per share that Salomon's Julius Maldutis estimates the airline will earn this year. That P/E may not be as high as it seems. Maldutis estimates that earnings will more than triple to $2.90 next year, for a P/E ratio of only around 8.

Herb Kelleher is 60 and a five-pack-a-day smoker. Can Southwest maintain its momentum without him? Kelleher doesn't duck the question, but it clearly irritates him: "I've been through this myself. When Lamar [Muse, Southwest's chief executive from 1971 to 1978] left, a lot of people said Southwest Airlines is over, it's kaput, because Lamar Muse *is* Southwest Airlines. Well, Lamar left in 1978 and Southwest is still here in 1991, and doing very well. Right now we have three or four people at a level where they could be chief executive of Southwest very successfully, and we've got others below them."

Having said this, Kelleher switches to a more congenial topic. "First people said we were a Texas phenomenon. When we moved into Louisiana, they said it was the energy belt. We moved west and they said, 'Aha! It's a Sunbelt phenomenon.' What are they going to say now when we fly to Chicago, Detroit and San Francisco?"

We'll try to answer that: They'll finally concede that Southwest got where it is, not by luck, but by darned superior management.

YOUR LENDER MAY SAY THAT THEY'RE RIGHT BEHIND YOU.

You may want to ask, however, what they're doing for you back there. Are they helping you create the financial flexibility you need to capitalize on every opportunity at every stage of your business cycle?

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Big business is leaving the cities for small-town America. This is understandable, but it has its hazards.

Exodus

By James Cook

THE U.S. corporation is on the move again. Earlier in the century there was a major trend for big companies to pull their headquarters from small towns where they got started and move to big cities like Chicago, Pittsburgh and New York. Texaco, J.C. Penney, Santa Fe Pacific. And then, in the wake of World War II, they began moving again, this time to the cleaner air, lower costs and nearby golf courses of the suburbs. IBM to Armonk, N.Y.; General Electric to Fairfield, Conn.; Mobil to Fairfax, Va.

That movement's finally petering out, and these days, according to David A. Heenan, boss of Hawaii's Theo. H. Davies & Co., a trading company, U.S. corporations are headed into phase three: a return to the hinterland beyond the sprawl of the metropolitan areas. Union Pacific to Bethlehem, Pa.; Harcourt Brace Jovanovich to Orlando, Fla.; even American Electric Power to Columbus, Ohio.

All this has tremendous implications for the future of the country, says Heenan. In a new book, *The New Corporate Frontier* (McGraw-Hill, $19.95), he states that the U.S. could emerge as "the first postindustrial country without important cities."

Heenan is no wild-eyed futurist. He's a onetime academician (Wharton, Columbia and the University of Hawaii), has worked for such big companies as Caltex, Citicorp and Davies, and has spent most of his life in cities like Boston, New York, Philadelphia and now Honolulu.

For over a century, corporations, once they had reached a certain size, settled close to the big cities in order to tap the specialized support services cities provided—accounting, law, public relations, advertising. But, thanks to telecommunications, computers and air transport, corporations can be as close to their investment bankers, advertising agencies and market consultants in Boise, Idaho or Charlotte, N.C. as they are in Oak Brook, Ill. or midtown Manhattan.

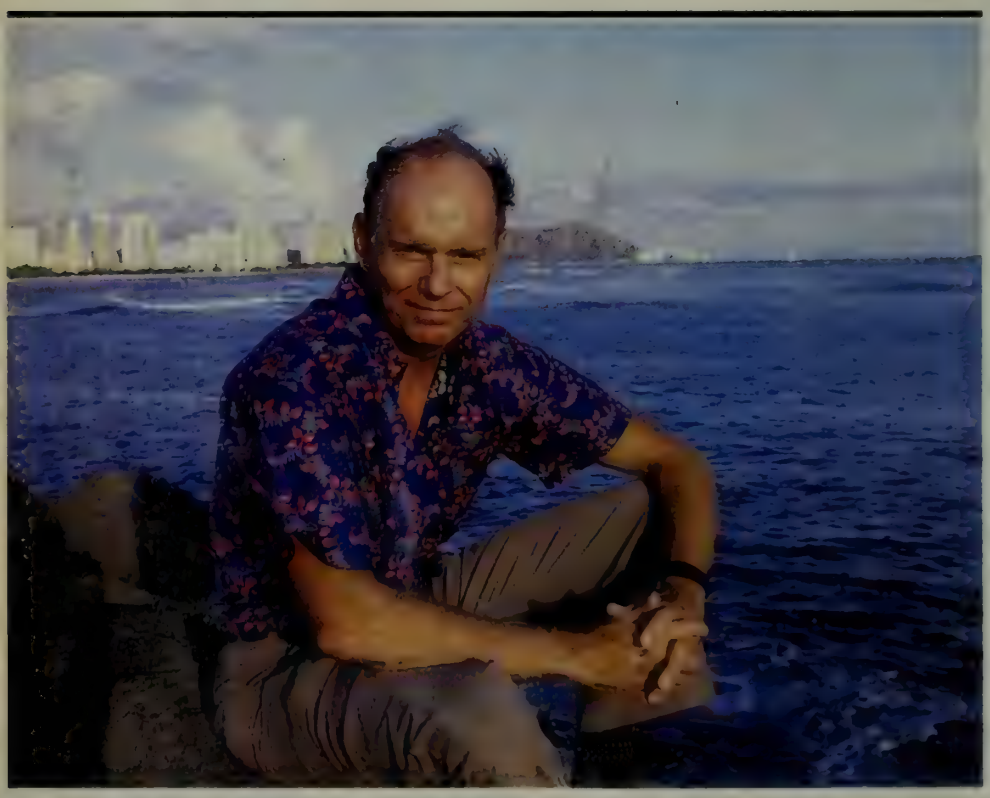
The necessity of a big city environment was always exaggerated anyway, Heenan says, and Dow Chemical has not been at any noticeable disadvantage operating out of Midland, Mich., any more than Corning Inc. has out of Corning, N.Y., Phillips Petroleum out of Bartlesville, Okla. or Wal-Mart out of Bentonville, Ark.

More than technology and transportation has changed. Corporate and management styles have, too, in ways that encourage a return to small cities and towns. The monolithic hierarchical corporation has been giving way to a smaller, simpler organization—what Heenan calls the minimalist corporation—and half the big companies in America are reducing their headquarters staffs and decentralizing. They can now settle down in a small city without dominating the community. After cutting its headquarters staff from 2,000 to 320, Exxon moved to Irving, Tex. (pop. 110,000).

Nor is corporate convenience the only consideration. Employees complain they can't afford the high cost of big city housing, they don't like the schools and they're alarmed at the high incidence of crime, narcotics and homelessness. Moving to smaller towns is the equivalent of giving many executives big raises and a better standard of living.

"The suburban rings have been infilled, over-malled and overdeveloped," Heenan says. "The cost structures are as high as, if not higher than, in the inner city, the schools aren't all they were cracked up to be. And there are crime problems and gridlock."

Of course, you can't just move anywhere. Today's young professionals don't want to give up the career opportunities, social amenities and cultural and intellectual stimulation that big cities offer and that small-



Bruce Asato

David Heenan, author of *The New Corporate Frontier*
He predicts a return to the hinterland for U.S. business.

A print being pulled from one of Bodmer's original plates before being hand colored.

A RARE OPPORTUNITY FOR PRIVATE COLLECTORS TO ACQUIRE THE MOST AUTHENTIC RECORD OF FRONTIER AMERICA. BEFORE ANOTHER MUSEUM DOES.

In 1832 Prince Maximilian of Wied, a German nobleman, and Karl Bodmer, a Swiss artist, embarked on a voyage through the interior of North America. It turned out to be the first and last scientific journey to record frontier America in pictures before the unspoiled West was to change irrevocably.

Bodmer and Maximilian arrived just in time.

Bodmer's depiction of the extraordinary landscapes observed and his portraits of the Blackfeet, Crow, Cree, Mandan, Hidatsa and Sioux along the Upper Missouri have never been surpassed.

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'Bodmer's America' is acknowledged as perhaps the finest record of Native Americans ever published. Sadly, only 3 years after he painted them, many of the fierce braves who sat before him had disappeared forever. They believed his drawings would protect them in battle, but they weren't powerful enough to save them from diseases such as smallpox.

Yet as important a record as Bodmer's images are, for many years they were lost to Americans.

When their journey was completed, Bodmer and Maximilian returned to Europe with their work. In 1839, in Paris, they published a very limited edition of colored engravings. So for many years Europeans had a far truer picture of frontier America than Americans had themselves.

It was only in 1948 that the original copper and steel plates were rediscovered by an anthropologist at Castle Wied and finally found their way into the safekeeping of the Joslyn Art Museum.

Now for the first time since their rediscovery a numbered, limited edition of 125 complete sets is being pulled from each of the 81 original plates.

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'Bodmer's America' is being published in London by Alecto Historical Editions, a firm renowned for its 19th century skills in copperplate printing and coloring, and the company that published the portfolios of John James Audubon's 'Birds of America' for the American Museum of Natural History, and Sir Joseph Banks' 'Florilegium' for the British Museum.

Each engraving is to be printed in color à la poupée with extensive hand coloring, heightened by gum arabic in the original 19th century manner.

After more than two years of preparation and extensive preliminary proofing, the first sets of the 81 prints have now been completed.

Many have, of course, been claimed by museums and institutions throughout the nation.

But a few complete sets are available to private collectors at the initial subscription price of $80,000.

The remainder of the edition will be completed over the next four years and will be offered by subscription during that time.

If you would like to arrange a viewing or to acquire a set please call Carol Barnes at 1-800-441-6207 or write to the Joslyn Art Museum, Room 13, 2200 Dodge Street, Omaha, Nebraska, 68102.

Once the edition is completed the plates will be retired to the Joslyn Museum where they will remain until the middle of the next century.

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Dave Heenan's rising stars on America's corporate frontier

James Blank/FPG

Des Moines, Iowa
Pop. 193,187

Dean Abramson

Manchester, N.H.
Pop. 99,567

Naples, Fla.
Pop. 19,505

MacDonald/The Picture Cube

Olympia, Wash.
Pop. 33,840

Tim Bieber/Image Bank

Peoria, Ill.
Pop. 113,504

Dean Abramson

Portland, Me.
Pop. 64,358

Robert Ginn/Uncorn Stock Photos

Princeton, N.J.
Pop. 12,016

Cliff Feulner/Image Bank

Scranton/Wilkes-Barre, Pa.
Pop. 129,328

Wilmington, Del.
Pop. 71,529

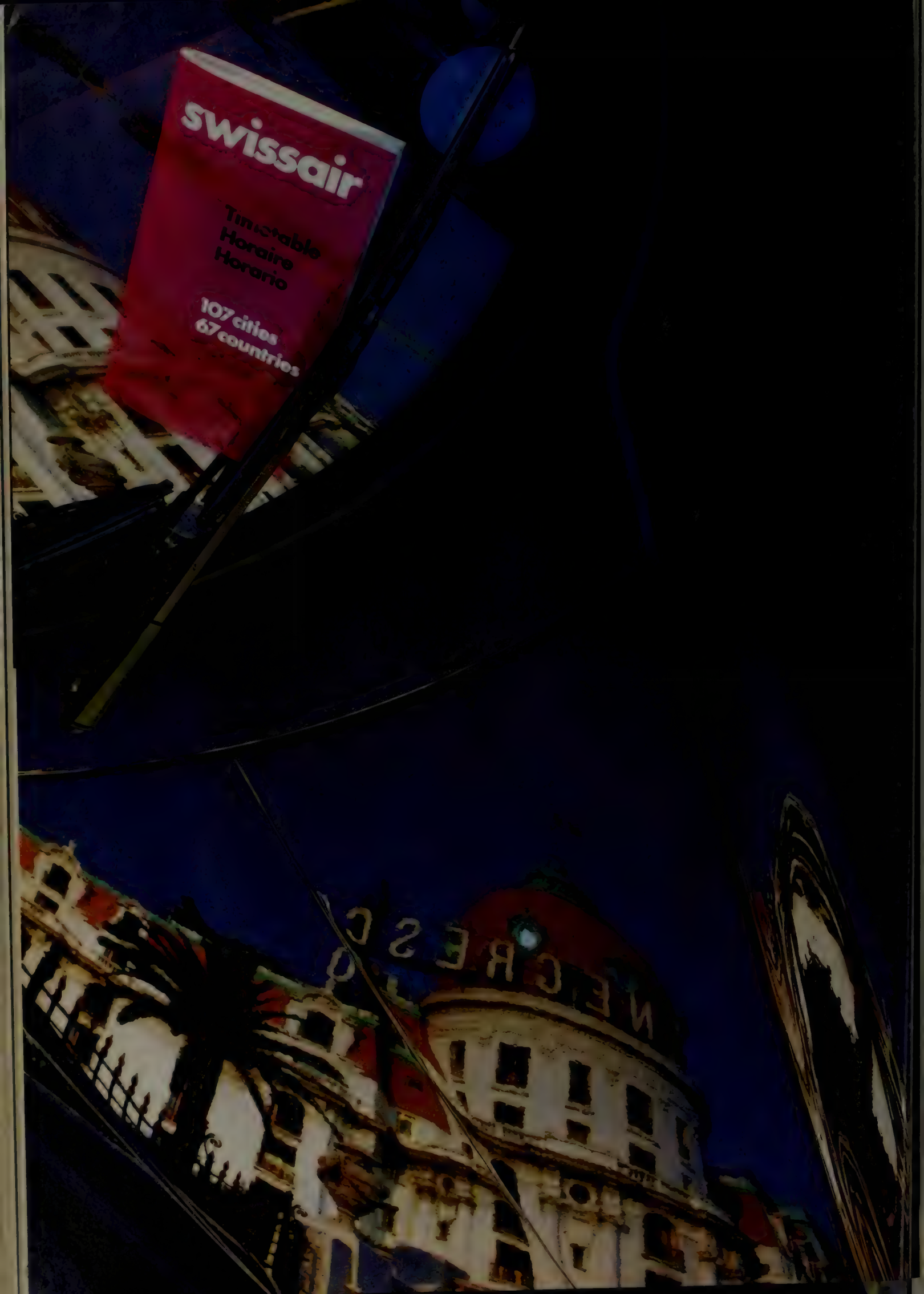
town America has noticeably lacked. (As Gertrude Stein said of Oakland: "There is no *there* there.") So the exodus has focused on small cities with broader horizons. Examples: Orlando, because it serves a resort destination; Charlottesville, home to a major university; Olympia, a state capital; Raleigh-Durham, a research community; and Hampton Roads, Va., a military base.

More than the big cities, small cities like these still cleave to the work ethic, offer a better-educated, more highly skilled work force, and are generally inhospitable to labor bosses.

Will Chicago and New York and Los Angeles just shrivel and die? Heenan hopes not. They remain crucibles of diversity, arenas of human interaction, conflict and innovation, and marketplaces for ideas; these are conditions you can't duplicate even in a university town or research community. Heenan believes certain kinds of businesses will stick to the big cities—telecommunications and publishing, for instance, and, to some extent, financial services.

Heenan warns that it would be a mistake to let the cities decay even though they are no longer needed as headquarters towns for big business. "It's dangerous, turning your back on the city," Heenan says. "Because if your marketplace is the national psyche and you are locked into some pristine pure environment, you very well may miss something." He points to Japan. There everybody wants to move to Tokyo. "They think it's absolute madness to be based in the suburbs," Heenan says. "They need face-to-face communications, whether it's holding a strategy session at the office or bellying up to a bar after work."

Heenan's conclusion seems to be that while big business doesn't necessarily need the big cities, the nation certainly does. ■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Buckle up, America!

German fashion? No, that's not an oxymoron. Some of the smartest clothing these days is coming from Germany, and the best values as well.

"Who is first in the market, sells"

By Richard C. Morais

WHO PRODUCES more clothes than anyone else in Europe and is the second-largest exporter of apparel in the world?

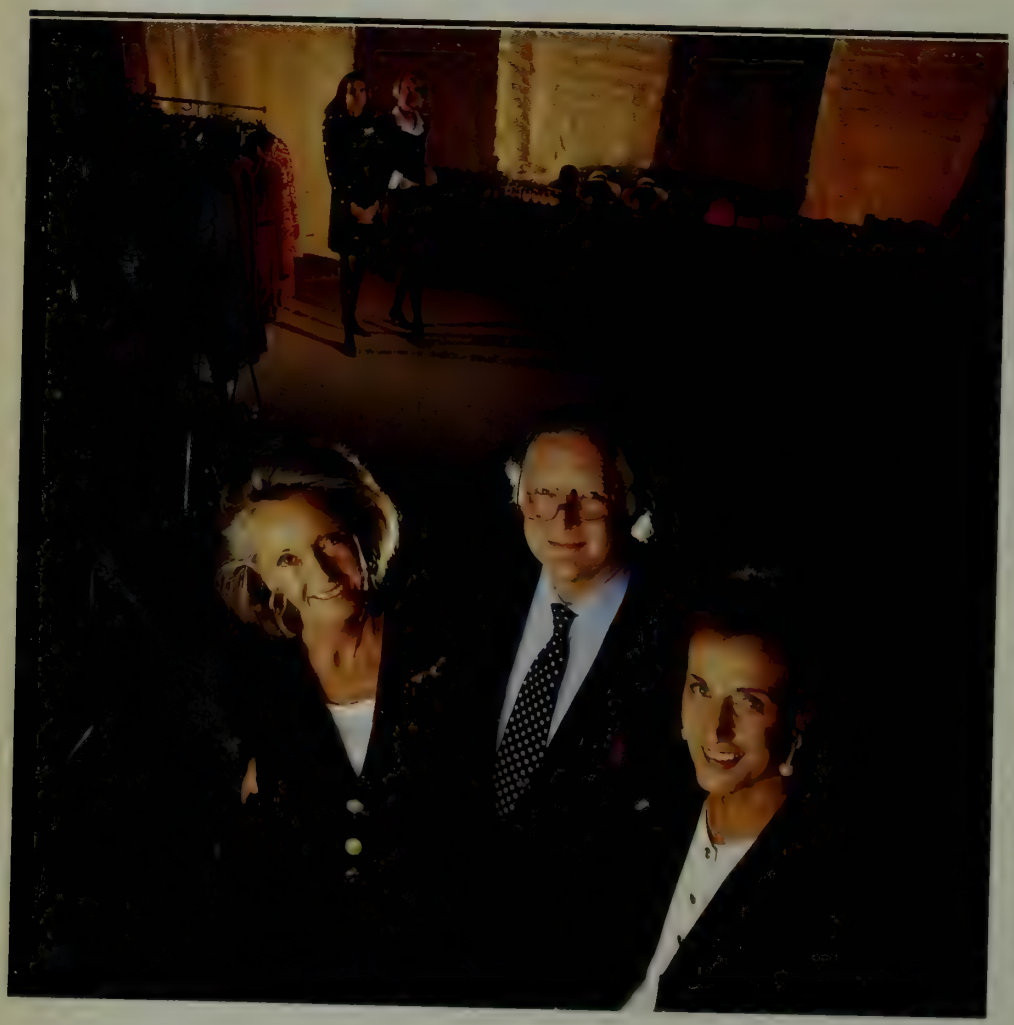
France? Italy? Guess again. It's Germany. In the last four years Germany has increased its clothing exports by 45%, to $5.53 billion. Behind these figures lurk fashion houses like Jil Sander, Joop!, Hugo Boss, Escada and Mondi.

Of course, none of these houses enjoys the design status of Italy's Giorgio Armani or France's Christian Lacroix. Karl Lagerfeld is a German design star, but he made his reputation in Paris at Chanel. Why hasn't German styling gotten more international attention? German merchants sometimes blame the absence of a real fashion capital, like Paris or Milan. There is no single fashion event in Germany where international fashion journalists descend for a complete overview.

Still, Germany has become a force to be reckoned with in the world of fashion. But more as a follower than as a leader. "During the 1980s German fashion houses built exports on the backs of reliability and quality," says Hans Trompetter, an official with the clothing association Bundesverband Bekleidungsindustrie. "There's been an increasing recognition of their creativity, but that creativity is in the identification of trends established in Milan and Paris, which German firms have turned into wearable outfits."

Translation: Let French and Italian designers grab headlines with breathtaking, but unwearable, costumes. Germans tend to focus on being first with a wearable street version of the hot new looks often established elsewhere on Europe's runways.

Take the small, family-owned Rena Lange of Munich. Peter and Renate Günthert brought their provincial family business to the $28 million sales mark in 1990. From nil a decade ago, they now sell more than half their merchandise abroad. The Güntherts expect sales of some $36 million this year because of three shops opening in Japan and a new showroom on



Cliff Sierra

ABOVE:
Suit by Rena Lange
LEFT:
Renate and Peter Günthert, Renate Gräfin von Rehbinder
"We are more marketing-minded than design-minded."

Fifth Avenue in New York. In the U.S., Lange clothes sell at upmarket stores like Neiman Marcus, Saks and I. Magnin.

Lange's clothes—such as a lipstick-red alpaca duffel coat with quilted silk lining for $1,500—are for the coiffed and the moneyed. The look is sophisticated: gold buttons, rich fabrics, understated elegance.

Despite the high cost of manufacturing in Germany, Chairman Peter Günthert manufactures 70% of his products there. He flirted briefly with lower-cost countries but decided that quality and reliable delivery dates were more important than cost savings.

When it comes to design, Lange executives are down-to-earth business people with no vainglorious need to reinvent the wheel and without towering egos. Lange's recent line is laced with cream-and-black suits that could have come from Chanel's catwalk. Crisply made, and known for light fabrics, Lange's interpretations retail for around $1,400, compared with a tag closer to $2,500 for a Chanel original.

Escada design from fall/winter 1991 collection
A high-risk, high-reward approach.

"We are more marketing-minded than design-minded," admits Günthert, his blue blazer draped over his shoulders in an unglamorous industrial-park-type office. Günthert talks softly about the daily boutique reports he studies, the system that allows him to quickly adjust his product line according to what is moving off the rack. "We are most interested in what sells."

One of Germany's go-go companies is the Escada Group of Bavaria. In the year ending October 1990, Escada increased sales 60%, to $571 million; cash flow increased 53%. Flash in the pan? The first six months of this fiscal year are showing another 22% increase in sales.

Escada's chairman, Wolfgang Ley, has taken a high-risk approach that, so far, has paid off. Rather than wait for orders, Ley starts manufacturing his clothes on speculation, so—if he gauges the fashion trends correctly—he is in position to deliver much earlier than his competitors. If he misjudges the new in look, Ley could wind up in trouble, but so far his instinct hasn't failed him.

That's why the work of his designer wife, Margaretha Ley, is so important. The Swedish-born Margaretha was reported to have said that the northern light of her childhood muted all colors; reacting against these soft tones, she has imbued her clothes with bright, almost harsh, colors. It appears she has hit a chord with the public.

A walk through one of Escada's many boutiques is revealing. There is no question these are bold, very distinct clothes. But there is equally a fleeting recollection of having seen a few details, like the spicy print pants, the electric lime jackets, somewhere before. The firm of Christian Lacroix, the hottest name in Paris today, thought it recognized similarities as well. This spring it filed suit in Paris against Escada, claiming that the German company had copied its belts and handbags and sold them under the Escada label. Escada vigorously denies the charge, and a company spokeswoman says it has produced stylebooks that show where its ideas originated.

However the case comes out, the fact remains that "borrowing" ideas is a long-established tradition in fashion. The New Look of 1947 by newcomer Christian Dior—probably the greatest fashion coup of all time—was not new at all. The reclusive Spaniard Cristobal Balenciaga had created the silhouette a decade earlier. Christian Dior added the golden touch of timing.

So, apparently, have the low-profile Germans. One of the largest clothing manufacturers in the world is Klaus Steilmann GmbH & Co., the Bochum-Wattenscheid-based family company with worldwide sales of $930 million. The producer of Karl Lagerfeld's line, KL, wrote the book on flexible, reliable delivery. Already back in the 1960s Steilmann began delivering not seasonally but monthly to his customers. "At the time no one even knew how to spell quick response," says Steilmann.

Today his company is still growing at a 10% annual clip. It's easy to see why. During the first six months of last year, sales were depressed in the women's coats and jackets department. Steilmann's nose sniffed a new trend in Swinger jackets, short trenchcoats, and "within weeks" was able to mass-deliver versions of the coats as orders began snowballing. The ailing division finished the year with a 4% sales increase. "At our company we think 'industrial,' not 'glamour,'" says Steilmann. "Who needs glamour?"

Back in Munich the very glamorous Renate Gräfin von Rehbinder, the executive marketing director at Lange, fluffs her chocolate-brown dress and places a well-manicured finger on the heart of the matter:

"Who is first in the market, sells."

The authors of computer and VCR instructions seem unable to tell you how to do what you want to do.

George Eastman, we need you

BY THOMAS SOWELL

Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

SOMEDAY, someone is going to make a fortune by figuring out how to make computerized products like videocassette recorders and word processors operate in a plain and simple manner, with directions written in straightforward English.

Back in the mid-19th century, photography was as complicated for the layman as computers and computerized products are today. To take a picture with the kind of camera that Matthew Brady used during the Civil War, you had to be a real technician who understood the chemistry of emulsion-coated glass plates and the optical properties of view cameras and their lenses. Then, in 1888, a man named George Eastman invented a camera he called the Kodak and suddenly anybody could take a picture. The rest, as they say, was history—and quite a bit of economics. Eastman Kodak did more than $19 billion worth of business last year.

It may be unfair to compare a product as relatively new to mass markets as the computer with a product which has been mass-marketed for more than a century. Nevertheless, it may be useful to see why cameras—even many high-tech, computerized cameras—can be explained and used much more easily than a videocassette recorder or a laptop computer.

First of all, even highly complicated cameras can do simple things in a simple way. You may be using a camera that can do many things that only a sophisticated professional photographer has even heard of. But if all you want to do is to take a picture of the wife and kids in the backyard on a sunny day, you can just point and shoot your computerized camera

HOW A BILLION DOLLARS IS MAKING A WORLD OF DIFFERENCE.

with an ease that you will seldom find when trying to do something equally simple with a VCR or a word processor.

For example, it is not complicated to get a computer to alphabetize a list of names. What is complicated is to find the instructions for doing so—and then to figure out what they are saying. Some instruction books do not even list "alphabetical order" in their index. If you don't happen to know that the jargon for that is "sort," you are just out of luck. And once you somehow manage to get to "sort," they want to tell you about all kinds of different sorting that the computer can do. The authors of these instruction books seem unable to resist regaling you with features, instead of telling you how to do particular things that you want to do.

No one tries to teach someone to drive an automobile by offering a menu of the car's features. No one says: "This is a steering wheel. It has a horn up here, cruise control over here, a windshield wiper operated by this lever. . . ." Instead you start with the basic things that the new driver wants to do, like get the car moving out of the driveway and into the street, without undue damage to property or risk to life and limb.

The very fact that there are many different instruction books sold for a basic software like WordPerfect ought to suggest that there is something wrong somewhere, because WordPerfect supplies their own instruction book free of charge and offers an 800 number to phone for help with problems. There is also a large market for a control device for videocassette recorders, even though VCRs come equipped with control devices of their own, at no extra cost. Yet enough people are willing to pay $60 for a control device that they can understand that its manufacturer is having trouble keeping up with all the orders.

You cannot go into a bookstore and find half a dozen books on how to drive a Buick because publishers know that General Motors has already supplied you with a free booklet, and that you are not likely to part with hard cash to get another one. No one manufactures a substitute control panel for an automobile because they figure you are unlikely to be baffled by the one that came with the car.

The problem is not with the complexity of the computer but with the obtuseness of the people who design some computerized products and who write the instruction books. The reason high-tech, computerized cameras can be used by people who don't know the difference between a color slide and a print is that they don't have to wander through a maze of complex features and complex instructions to find the simple things they want to do. Computer menus, like other menus, have their place. But sometimes you just want to go to your favorite restaurant and tell the waiter: "The usual." Cameras and their instruction booklets are typically designed so that you can easily do "the usual," bypassing all the esoteric features that more advanced photographers use.

Not so with many VCRs, computerized watches, and the like. If I just want to put a movie in my VCR and play it, I have to go to the filing cabinet and get out the instruction booklet. And if I haven't done this for a few months, chances are I still won't be able to figure it out, without calling my friend George—a commodity speculator who is obviously better suited for this kind of speculative activity. ■

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A major factor that will contribute to the success of this new association is the excellent fit between the two companies. In insurance operations, AXA relies heavily on an agency system to deliver its products; The Equitable's sales force of over 9,000 agents is recognized as one of the most productive and professional in the U.S. insurance business.

We both have strongholds in insurance markets that don't overlap: The Equitable in individual life and annuities in the U.S., and AXA primarily in property and casualty in Europe. And since the U.S. is the world's largest insurance market and the European Community is expected to become the world's largest unified market after 1992, the future looks bright indeed for this new global alliance.

In investment operations, The Equitable and AXA should be an especially powerful force. Together we manage well over $180 billion in assets, which, if combined, would create one of the world's largest institutional investors. And when you add AXA's investment knowledge and distribution capabilities in Europe to The Equitable's in the U.S., you open doors for countless joint investment opportunities all over the world.

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Meet Carlos Slim Helú, Mexico's quiet wheeler-dealer and the man behind the hot Telmex stock offering.

El conquistador

By Claire Poole

WHAT'S BEEN ONE of the hottest stocks on the Big Board's most active list this year? Teléfonos de México, Mexico's newly privatized telephone monopoly, up 20% since May 15.

The force behind this latest chapter in Mexico's awakening economy is Carlos Slim Helú, 51, a man known to few in the U.S. An unassuming, publicity-shy executive, he has quietly amassed a $1.9 billion personal fortune. His family life revolves around his business; three of his six children work in one of his companies. In Mexico's fast-evolving capitalist system, Carlos Slim has become perhaps the biggest single player.

Slim emphasizes lean. Grupo Carso, his publicly held holding company, has only ten people on its corporate staff, which operates out of an unair-conditioned house in the stylish Lomas de Chapultepec section of Mexico City. Surrounded by paintings by Mexican artists and a collection of antique Mexican books and documents, Slim spends his mornings on the telephone and poring over figures, but he does not try to micromanage his far-flung holdings. Puffing on his ever-present Cuban cigar, he says, "I can't be inside every company. My work is to think."

Through Grupo Carso Slim has built interests in mining, manufacturing, paper products, retailing, insurance, stock brokerage, food, tourism and now telephones. Last December he teamed with two foreign partners—Southwestern Bell and France Télécom—to outbid two other groups to buy over 20% of Teléfonos de México, known as Telmex. The price tag: $1.76 billion, big money by U.S. standards and an astounding sum on the Mexican scale.

Slim's empire began modestly enough. The son of a Lebanese immigrant who ran a general store and wholesale business in Mexico City, Slim studied civil engineering at the National Autonomous University of Mexico. After he graduated, Slim started a construction company, a real estate firm and a brokerage house. Grupo Carso soon followed.

Whence came his business ideas? From the U.S. Slim follows the investment philosophy of Benjamin Graham. He also learned a lot, he says, from a series of articles J. Paul Getty wrote for *Playboy* in the 1960s about investing. Last November, amidst all of his Telmex dealings, Slim flew to Omaha to talk to Warren Buffett.

Sergio Dorantes

A Telmex repairman working on telephone lines beneath Mexico City

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*"...the Audi [200] Quattro finds itself in the same price arena as the BMW 535i, Mercedes-Benz 300E, Lexus LS 400 and Infiniti Q45. Apart from the Audi, only the Benz offers all-wheel drive, but as a more expensive model." [$54,150]**

Road & Track 1990

CONTROL OF THE ROAD

Even in the most ordinary of driving situations, a Quattro's road-holding ability is apparent. All you need do is drive it through a curve to feel how the added traction contributes to greater control. As witnessed by *Car and Driver*, it offers a "purity of control that turns driving into glissandos of motion."

CONTROL OF THE WEATHER

Now drive that same stretch of road in the rain or snow and you can appreciate the Quattro System even more. Because as road conditions get worse, an Audi Quattro can perform even better.

"I drove four hours through one of the most frightening thunderstorms imaginable. Canada's Highway 401 was deserted from Hamilton to the Blue Water Bridge. Most of the lesser cars had given up, pulling under overpasses to sit out the storm. But the [V8] Quattro? Well, we barely slowed down. Without a twitch, through rivers of road water and mud, the Audi was surefooted. I can't imagine being able to make that drive, in those conditions, at those speeds, in any other car."

AutoWeek 1990

And should even one wheel of a Quattro begin to lose traction, the system has the uncanny ability to react instantly and redistribute power to the wheels with traction.

A feat that rear-wheel drive cars, even those with

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expensive traction control systems, would find impossible.

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Couple Audi's all-wheel Quattro drive with our advanced Anti-Lock Brake System (ABS) and the additional control afforded the driver borders on the incredible.

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We believe the ability to control the road under any circumstances, in any situation, is what today's driver is looking for. Which means if you have a love of driving, along with a desire to be in control of the driving experience, then you may find an Audi not only appealing but irresistible.

All you need do is visit an Audi dealer and take control.

Audi V8 Quattro

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What did Buffett and Slim talk about? Investment philosophy. Says Slim: "Others look at the short term, and are emotional about their investments. We look at things differently."

Slim's idea of long term is very long indeed. In 1976 Slim spent $1 million to buy 60% of Galas de México, a small printer of cigarette pack labels. One of Galas' biggest customers was Cigatam, a fledgling cigarette company that had licenses to such foreign brands as Marlboro and Benson & Hedges. Slim used the cash flow from Galas to buy 51% of Cigatam in 1981, with Philip Morris owning about 30%. At the time, Cigatam had only 27% of Mexico's cigarette market. Thanks to improved distribution and advertising, Cigatam's share is now 42%. Last year Marlboro pushed aside Raleigh to become the top-selling cigarette in Mexico, with a 27% share.

Grupo Carso's Carlos Slim Helú

"We want to make Telmex a world-class company."

In 1982 Mexico came to the brink of economic collapse and Slim—true student of Getty, Graham and Buffett—took advantage of the resulting panic to buy a lot of assets cheap. Among the pickings: insurance company Segumex in 1984 ($13 million) and mining company Frisco in 1986 ($50 million). Foreign investors were as panicked as the Mexicans, and Slim was able to buy Walgreen's 46% stake in the Mexican department store chain Sanborn for $30 million and trade his 50% stake in Anderson Clayton for Unilever's 50% stake in candy company Nacional de Dulces.

Because he tends to buy when assets are cheap, Slim's companies aren't loaded with debt. Last year Grupo Carso had net profits of $81 million on $1.5 billion in sales, but its debt load is only $300 million, about 30% of capital. With a market capitalization of $2.4 billion, Grupo Carso is Mexico's sixth-largest publicly held company.

With the Telmex telephone deal, however, Slim has moved up a notch in the scale of his operations. In 1989 the Mexican government announced it would sell a 51% voting interest in Telmex to private investors that represented over 20% of the equity in the company.

Last fall, before the bidding even began, Slim spent two months negotiating with Southwestern Bell and France Télécom as potential partners who had the technology Telmex badly needed. Slim insisted that Carso have operating control of the consortium, as well as of Telmex. So eager were the partners for a piece of the Mexican action that they agreed.

By bidding time last November, only 3 out of 16 qualifiers could come up with financing. Slim's consortium easily won, outbidding by $70 million his nearest rival, a group that included GTE, Telefónica de España and Acciones y Valores, a Mexican brokerage firm led by Roberto Hernández Ramírez and Alfredo Harp Helú, who is Slim's first cousin. Slim financed Grupo Carso's $860 million stake in Telmex with proceeds from a 1990 Grupo Carso public offering (40%), cash flow from his operating companies (20%) and debt (40%).

In the three-way consortium France Télécom will concentrate on line expansion and modernization; Southwestern Bell will concentrate on improving operations and developing cellular and paging divisions. They have their work cut out. Telmex operates in a country with only 6 lines per 100 inhabitants, fewer than many other Latin American countries and compared with 53 per 100 in the U.S. An estimated 1.5 million orders are on a waiting list—this for a company with only 5.2 million in service. Those who do get approved wait 18 months on average for installation.

As required by government concession, Slim must double the number of Telmex telephone lines and public booths by 1994, expand into unserved rural areas and reduce the waiting time for installation. Slim must also improve service—quite a feat for a telephone company in which busy circuits, disconnections and 12,000-complaint days are commonplace.

But the potential is considerable. Last year Telmex had net profits of $1.1 billion on $3.8 billion in sales—one-third the size of Southwestern Bell but twice as profitable.

What's next? Slim says he is interested in expanding his consumer products business, and may pursue other mining interests. He would also like to develop more joint ventures with American and Canadian partners like the ones he already has with Du Pont, Philip Morris and Placer Dome. But right now he has enough on his plate with Telmex. "We want to make Telmex," he says, " a world-class company."

A Mexican sampler

Company	Date purchased	% owned
Holding company		
Grupo Carso		70%
Operating companies		
Inbursa*	1965	51E
Galas de México	1976	88
Cigatam	1981	69
Segumex*	1984	51E
Porcelanite	1984	74
Sanborn	1985	55
Lypps	1985	99
Agusa	1985	88
Frisco	1986	51
Nacobre	1987	63
Nacional de Dulces	1988	50
Hoteles Calinda	1990	100E
Telmex	1990	10

*Spun off from Grupo Carso in June 1990. E: Estimate.

Through Grupo Carso, Carlos Slim Helú has amassed a far-reaching $1.9 billion fortune. Here are his interests.

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WASHINGTON, D.C. **PULLMAN HIGHLAND**

Whatever the gossips may say about his sexual naiveté, Bernard Arnault has shown himself a master of financial intrigue.

"The ghost of Christian Dior"

By Zina Sawaya and Phyllis Berman

ALL OF fashionable Paris was titillated. "Ah, Bernard!" the crudely printed letter declared. "You should have gone out a little in the evening instead of keeping your nose in your business reports." There followed a scurrilous account of how one woman allegedly rose to the top of a Paris fashion house by having an affair with one of France's most important businessmen, 42-year-old Bernard Arnault. Signed "The ghost of Christian Dior," it was distributed this past spring to much of Paris' haute société and business elite. Delicious! Arnault is president of LVMH Moët Hennessy Louis Vuitton, proprietor of such names as Parfums Christian Dior, Hennessy, Moët & Chandon, Dom Pérignon and Louis Vuitton. And the gossips said he had naively let himself be compromised by a scheming and ambitious woman.

The French media coolly ignored the scandal—what is newsworthy about a French businessman having a mistress? But London's Sunday *Times* ran with it, for it seemed to show its insular readers how immoral those French really were. What Arnault's British partner, Anthony Tennant, thought of the matter isn't known. But the dignified, low-key chairman of Guinness, Plc. could hardly have been pleased.

LVMH's Arnault and Guinness' Tennant coexist somewhat uneasily in an Anglo-French corporate relationship that is in some ways typical of the new Europe. Guinness owns 24% of LVMH, the $3.2 billion (revenues) French company. LVMH in turn owns 24% of Guinness, Britain's $5.6 billion (revenues) brewer and liquor distributor. But while the corporate embrace is close, it is not necessarily warm—a marriage of convenience.

The relationship dates to 1987, when Guinness and LVMH pooled some of their global liquor distribution systems. The relationship developed further the following year when LVMH's major shareholders were fighting amongst one another and when Bernard Arnault and Guinness were both invited to buy into LVMH to support opposing factions. Arnault was then, and remains, head of Financière Agache, a Paris fashion powerhouse that includes Christian Dior and Christian Lacroix. A deal was struck between Arnault and Guinness' Tennant that gave Arnault control of LVMH. Ultimately Guinness would invest $1.6 billion in a new holding company and another Arnault-controlled entity that would give Guinness a 24% stake in LVMH. At the same time, LVMH would initially buy 12% of Guinness through an issue of new shares. Thus the two would cement their joint liquor distribution agreement and would protect each other from hostile takeover.

Guinness would get 45% of the holding company that controlled LVMH. The other 55% would belong to investors friendly to Arnault. Confusing? By U.S. standards, yes. But Europeans like these complex arrangements; besides, an outright merger between LVMH and Guinness was out of the question. The French

LVMH's Bernard Arnault and models

This Frenchman's alliance with Guinness and its low-key chairman is no happy Euro-marriage. "The French are the French, and the English are the English," shrugs one of Arnault's bankers. "It's a problem of personalities and culture." Those cultural differences aren't going to be wiped out next year along with the trade barriers.

A promise to make your kids my kids, when you need a weekend off.

A promise that help with a down payment won't require pride as collateral.

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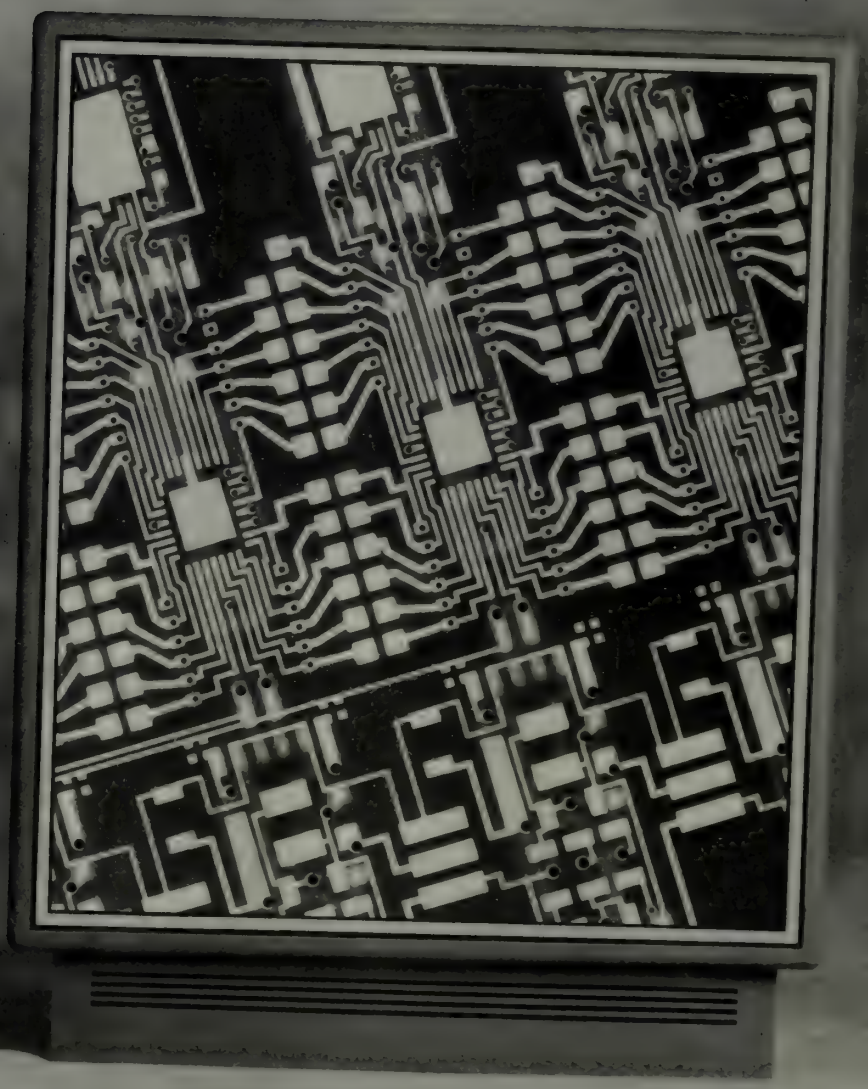

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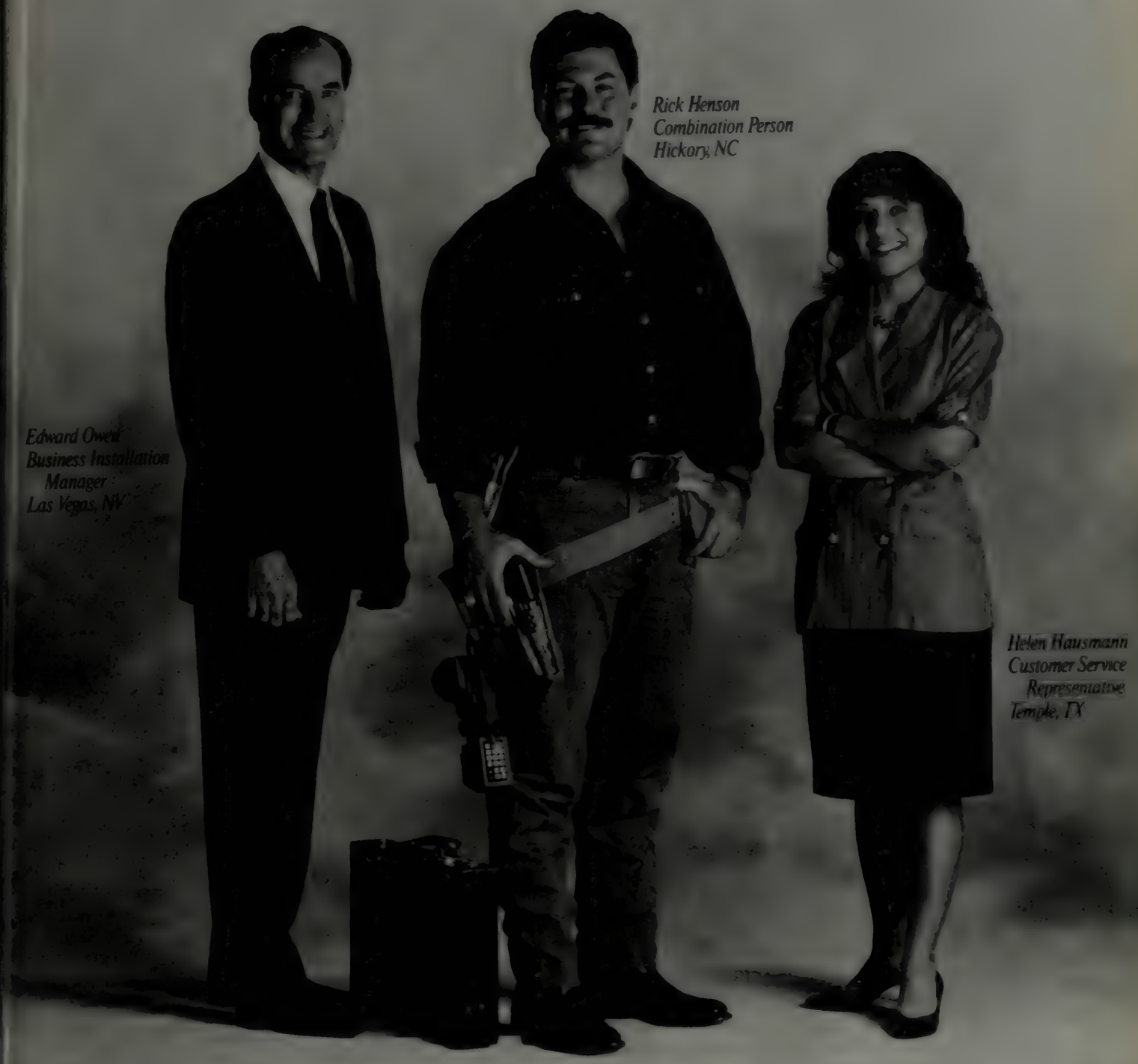

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government wouldn't have allowed LVMH to come under foreign sway.

Arnault later bought another 12% of Guinness on the open market. That leaves LVMH in a good strategic position. Under British securities rules, it is only 1% short of the stake required to overrule certain board decisions. Guinness' block of LVMH, by contrast, sits in holding companies of which Guinness is a minority shareholder. Although both parties profess themselves pleased with the deal, the feeling in the financial community is that Guinness and Tennant were taken.

But no one complained. Between 1986 and 1989 LVMH's operating income grew at 30% a year. That was the era of conspicuous consumption. Louis Vuitton bags and Christian Dior perfumes flew off the shelves. Guinness grew at a slower rate.

But the bonanza came to a halt last year for LVMH. The Gulf war, the recession, the drop of the dollar and the yen caused LVMH's operating income to stagnate at $925 million. Over the same period, Guinness' operating income grew 23%, to $1.4 billion, making Guinness the most profitable alcoholic drinks outfit in the world. With its popular brands (Johnnie Walker, Gordon's, Guinness Stout) Guinness proved less vulnerable to recession. "We're in the driver's seat at the moment," claims a Guinness spokesman.

William Stevens/Gamma Liaison

Arnault and Tennant

Who's in the driver's seat?

Comments like this must make Bernard Arnault smile. At 42, the onetime real estate executive has already accumulated a personal fortune of some $200 million, and he clearly got the better of the British in his 1987 megadeal. So what if some anonymous gossips say he was sexually naive?

Using methods that defy description, Julian Robertson has become the nation's hottest money manager.

"The best instincts in the jungle"

By Frederick E. Rowe Jr.

JULIAN H. ROBERTSON Jr. sits atop the world of money management. With $2 billion under management, a superlative 11-year performance record and the leveraged compensation structure of a hedge fund manager, he holds what is clearly the hottest hand on Wall Street these days. He's probably worth $200 million dollars—and the number is rising fast.

No boy genius, Robertson started his Manhattan-based Tiger Fund, his flagship partnership, when he was 48 years old. Peter Lynch, the now retired master of Fidelity's Magellan Fund, hung up his spurs last year at 46, unwilling to subject himself to the continuing stresses of big-time money management. At 59, Robertson seems still to be getting up steam.

Robertson grew up in North Carolina and attended the University of North Carolina. He spent two years as a junior officer in the Navy, then made his way to Wall Street in the mid-Fifties.

Despite Robertson's having lived in New York for the past 34 years, his North Carolina drawl is still pronounced. That and his 6-foot-plus, 200-pound frame and an expansive personality give him a strong presence unusual for money managers, who tend to be introspective types, withdrawn and reflective.

In 1957, at the age of 25, Robertson went to work for Kidder, Peabody, where he remained for the next 23 years. He succeeded as what is now referred to as a "high net worth broker." In 1974, at 42, he became head of Webster Management, then Kidder's money management subsidiary. Well paid, but feeling "too constrained," he left in 1978 and moved his family to Auckland, New Zealand, where he planned to write a book.

Of course, the book wasn't finished; the solitary act of writing is not his style. During his 13 months in New Zealand, Robertson says, he realized how much he missed the investment business. But he didn't want to go back to brokerage. He had seen too much of what he calls the "confining" aspects of conventional money management. And he had seen industry commissions decline. And while that end of the business was drooping, he noticed with admiration the then great successes of hedge fund operators like Robert Wilson and George Soros. Robertson plotted his return to Wall Street. The hedge fund would be his vehicle. Some of his old customers would put up money.

He teamed with Thorpe McKenzie, a younger man who had been handling Robertson's customers during his absence, and started Tiger Fund in May 1980. His timing looked dismal at first but was actually extremely good. The Dow was in the 800s and seemed unable to get back to the 1000 level it had hit in 1966. But it took off later in the year and, after another dip in 1982, was off on the bull market that was to carry it to 2700 within five years.

Tiger Fund—so named because Robertson calls people "Tiger" when he's fond of them—began with capi-

"Working hard and trying to be your best. That's what tennis and life have in common for me." *Chris Evert*

In 1971, a ponytailed, steely-eyed teenager, with a rare two-handed backhand, fired the imagination of the tennis world by reaching the semifinals in her first U.S. Open. Eighteen Grand Slam titles later, there is no question that Christine Marie Evert, known throughout the world as simply "Chrissie," has carved out one of the great careers in sport.

"For me," she said, "tennis was a chance for a shy little girl to make her mark." And what a vivid mark it's been. Always a gracious competitor, Chrissie has been the guiding spirit of women's tennis, and, by example, an inspiration to all women athletes. "Sports are one of the world's great forms of communication," she said.

Chris Evert has unfailingly demonstrated exceptional endurance and grace under pressure. Not surprisingly, the same qualities are reflected in her longstanding choice of a timepiece.

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tal of $8.8 million. Some of the money came from partners Robertson and McKenzie, who contributed all their available capital, about $1.5 million between them.

Today, a mere 11 years later, Tiger and the related Jaguar and Puma funds are running about $2 billion total. In the first seven months of this year alone, the funds were up 40%. With an annual 1% management fee and a 20% share in the profits, Robertson's management firm will earn about $100 million this year; then there are his gains on his own holdings in the funds. (Thorpe McKenzie left Tiger in 1982, far richer than when he started.)

What makes Julian Robertson such a hot stock picker?

His investment methods are a function of his personality. He is intuitive, he is impatient, he is flexible, he is decisive and competitive with a capital C. Above all, he is optimistic—a quality that has served him well, since world stock markets have been in a general uptrend since he started in the hedge fund business. He does, of course, sell some stocks, mostly bad ones, short; that's how an otherwise generally optimistic hedge manager protects himself against unexpected squalls. But his bias is always to the long side of good stocks. That is a reflection of his optimism.

What does he look for in a stock? A situation where company fundamentals are going to improve for a sustained period of time. Wal-Mart, which he first bought in 1988, is an example of this kind of stock. Typically, Robertson will hear a story, look at the analysis, make up his mind and then buy aggressively if he likes the story—as was the case with Wal-Mart. Mostly, there is no easing into or out of a position. One southern friend described Robertson as going for an idea "the way a large-mouth bass strikes a lure." He bit on the Wal-Mart story when he concluded that the company had superior management. Not only did Robertson hold Wal-Mart for years, he shorted Wal-Mart's direct competitors.

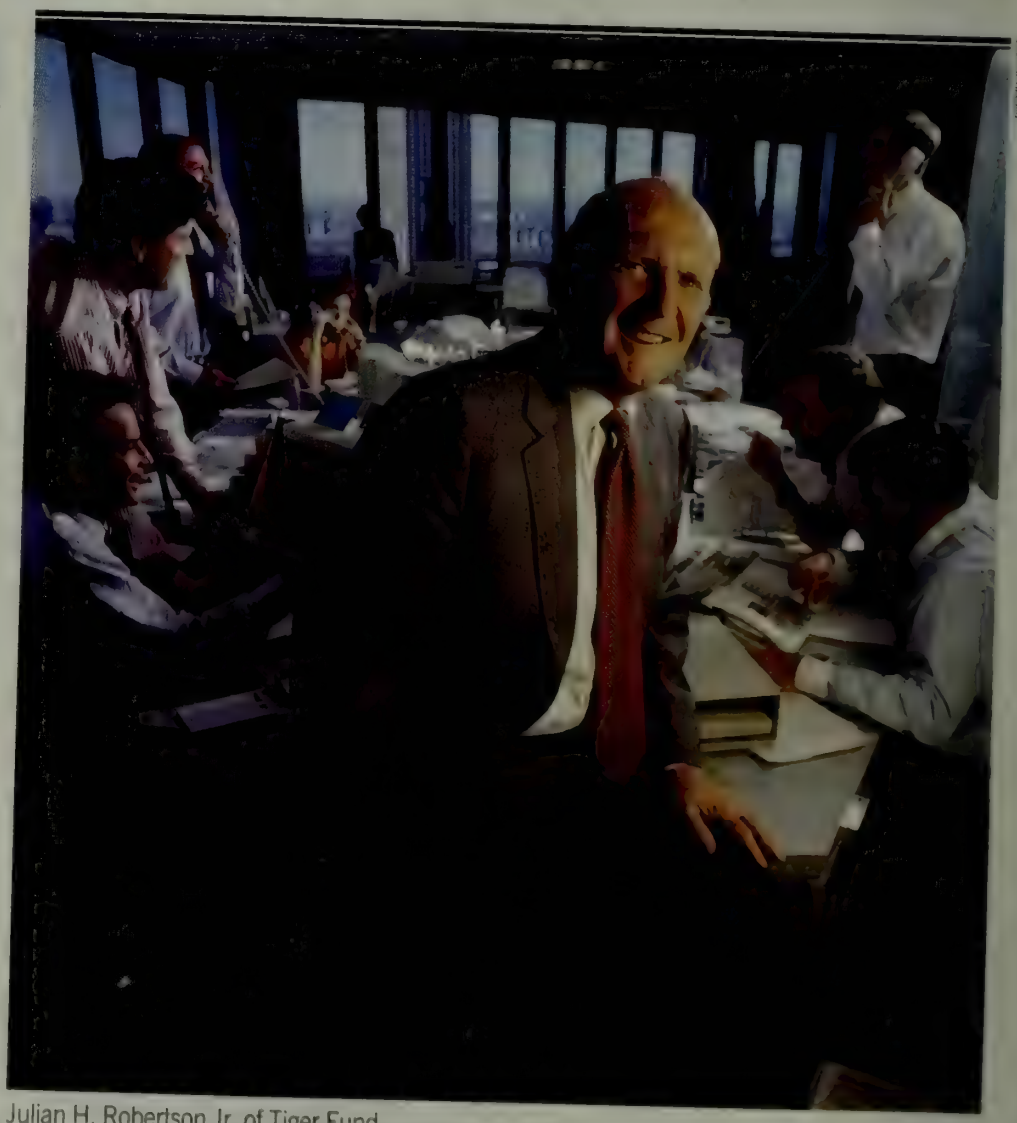
But when the story changes or the valuation becomes excessive, Robertson gets out as quickly as he gets in. He finally bailed out of Wal-Mart this year; he still liked the business but he didn't like the price relative to the prospects.

Tiger carries about 150 long positions. These are all active positions. There is no "deadwood." For Robertson, stocks are either buys or sells. Robertson remembers why he bought each stock, and, when the story changes, he sells: He does not delude himself or in any way rationalize his position.

He is an intense conversationalist and is constantly seeking out investment ideas from people he thinks "know what they are talking about." But Robertson always makes up his own mind in his seemingly intuitive fashion. Barton Biggs of Morgan Stanley and James Grant of *Grant's Interest Rate Observer* are two people whose views he respects. Both Biggs and Grant were bearish last fall. Robertson listened to them but finally drawled, "There's just too much pessimism around." He went long and stocks went up, and Robertson and his clients got richer.

Barton Biggs says Robertson has "great taste," meaning he has an almost uncanny ability to choose from masses of information just those snippets that make investment sense. This writer had an experience with Robertson that illustrates the point. He asked me, referring to stocks: "Waddya like?" I went into my spiel about health care stocks being outrageously overpriced. Robertson let that pass and changed the subject. It was clearly an idea he had already heard and rejected.

Robertson's reputation for "good taste" is such that people are eager to run a story by him. A favorable hearing by Robertson probably means that the story makes sense. I wish I had taken the cue when he turned off on my health care stock thesis. My



Sherry Wachter

Julian H. Robertson Jr. of Tiger Fund

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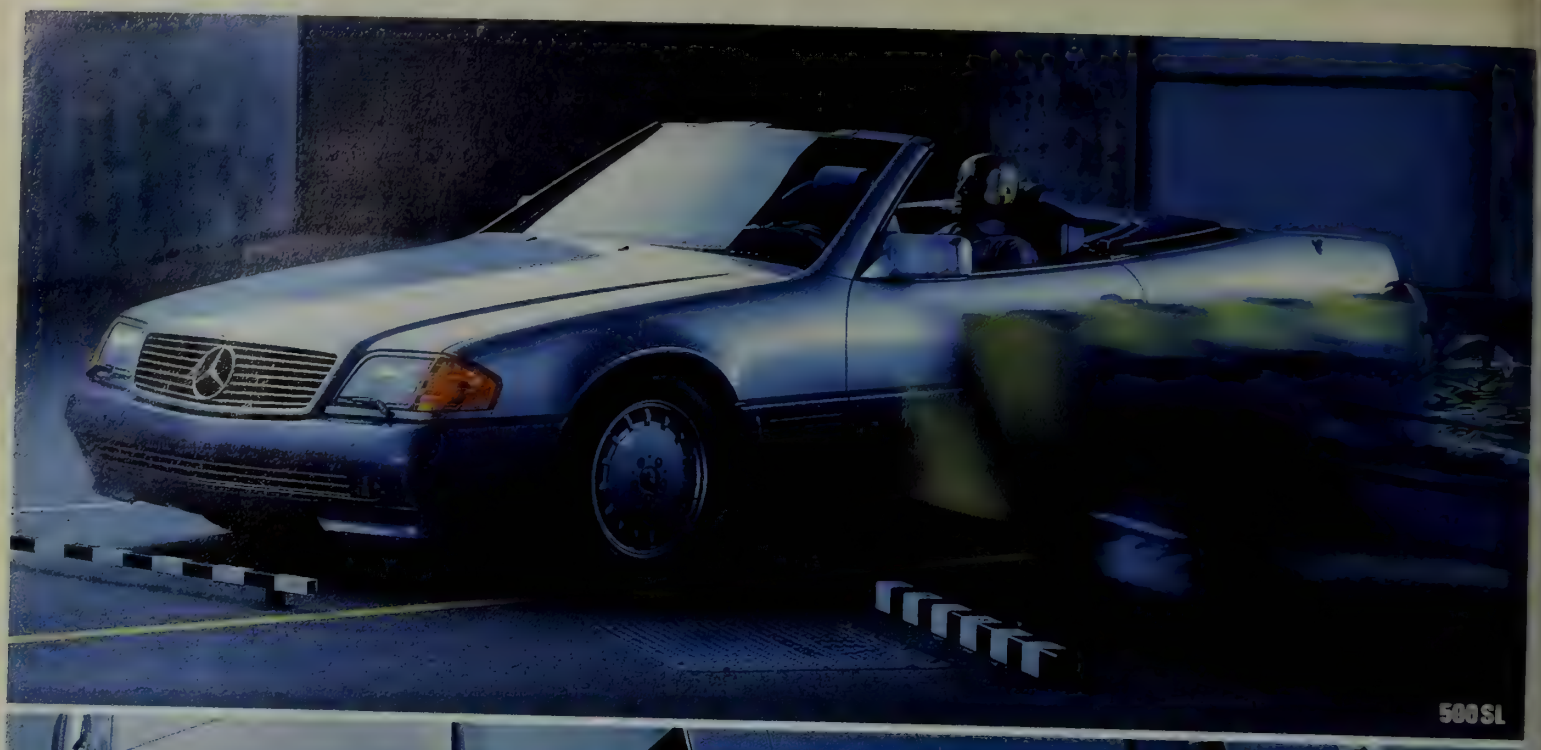

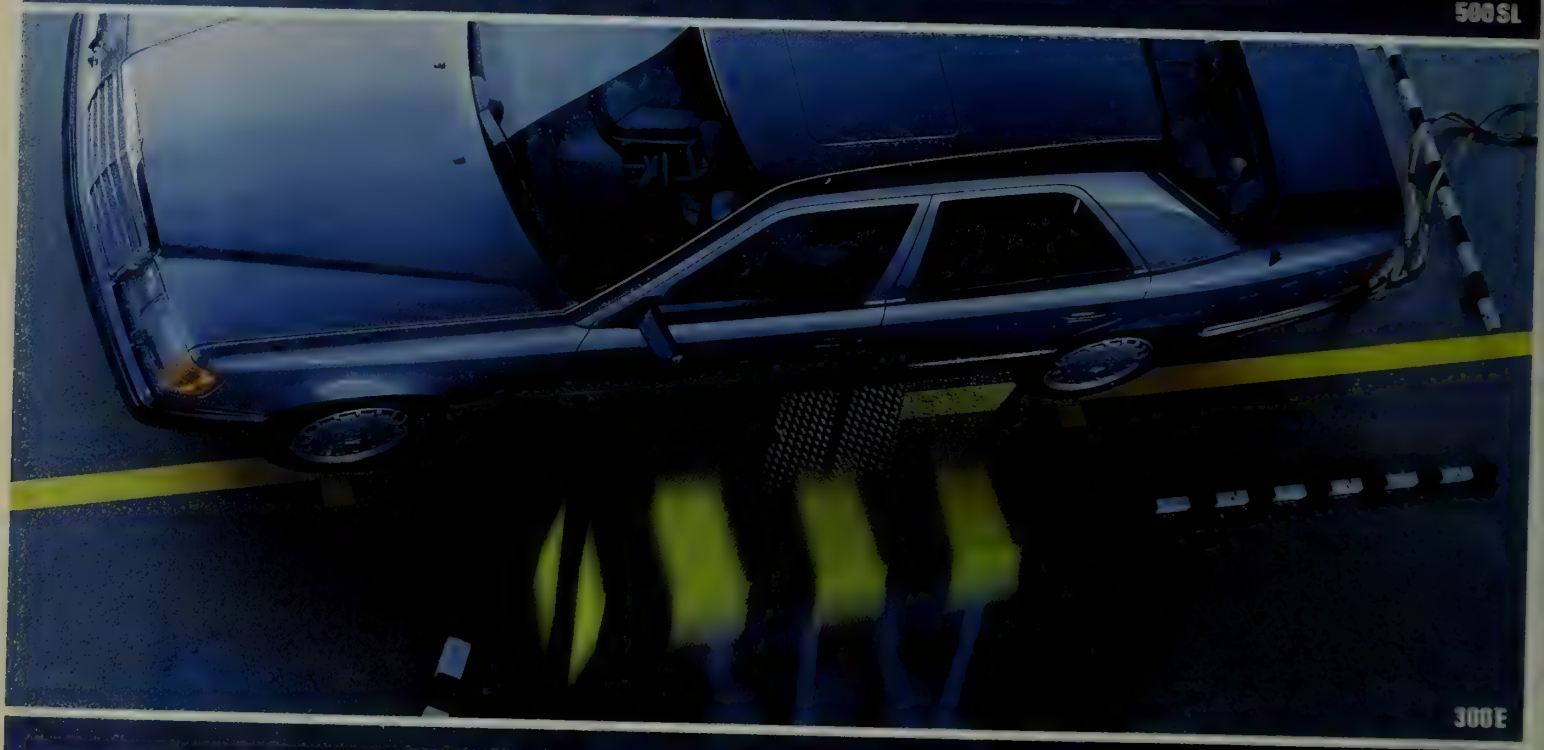

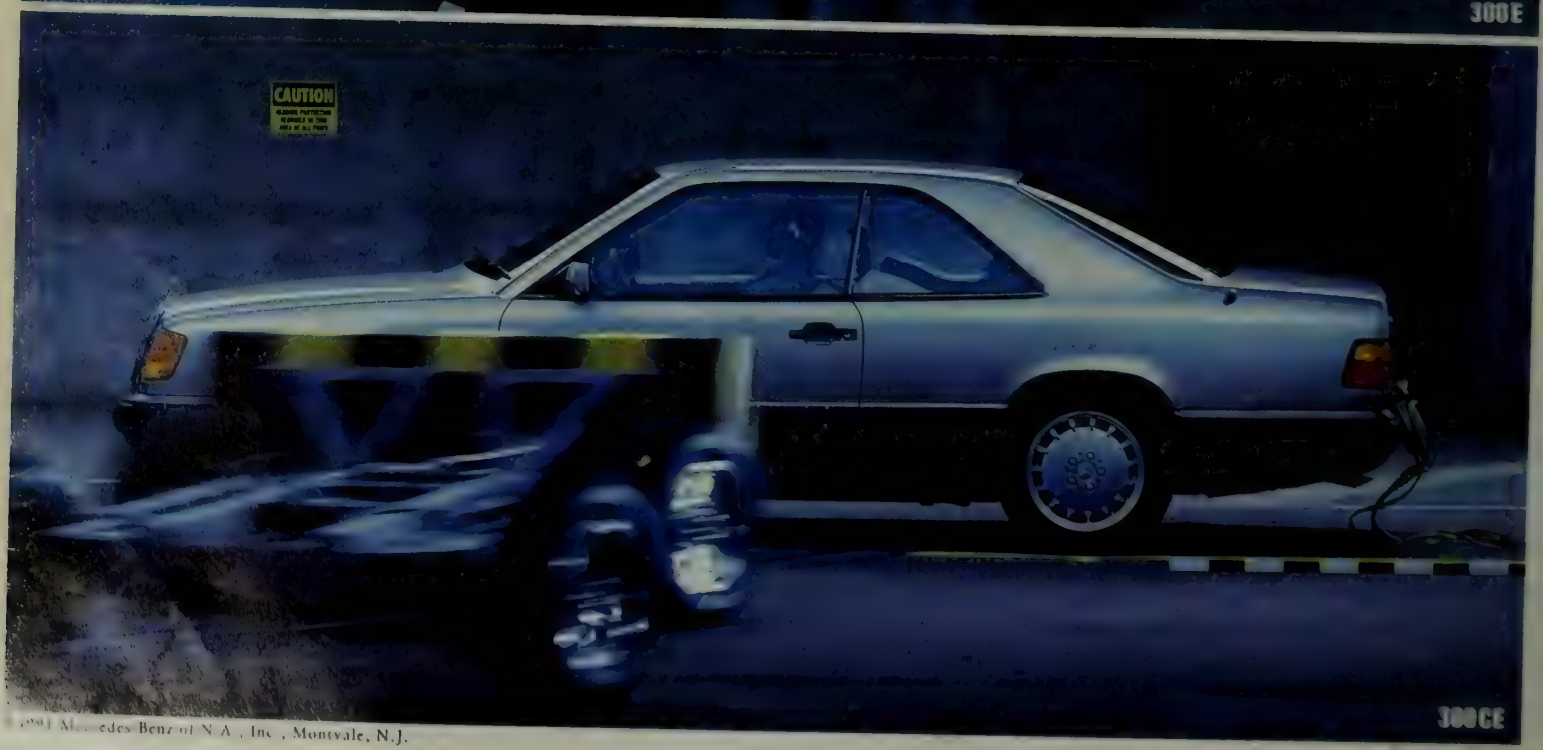

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Company/business	Recent price	Market cap ($mil)	Sales[1] ($mil)	Net income[1] ($mil)	Earnings per share[1]	% owned
Advo-System/direct mail	20	$261	$678.3	$18.5	$1.04	14.9%
Cleveland Cliffs/iron mining	32½	381	423.0	83.7	7.14	10.2
Collective Bancorp/savings & loan	17⅛	149	239.7	17.9	2.04	6.7
Delphi Financial Group Cl A/insurance holding co	8¾	84	318.9	14.1	1.19	35.7
First Financial Fund/mutual fund	7¾	73[2]	2.8[2]	1.6[2]	NA	28.9
First Financial Holdings/savings & loan	13⅛	44	93.5	6.2	1.94	9.8
Novellus Systems/semiconductor equipment	21⅝	301	74.1	17.0	1.10	7.8
Omni Capital Group/savings & loan	16¼	41	57.8	5.6	2.22	9.9
Proler International/metal processor	11⅜	53	117.7[3]	–14.6[3]	–3.09[3]	14.2
Sealed Air/packing material	38½	348	421.2	13.4	1.50	8.8
Sequa Cl A/diversified industrial	53¾	545	2,000.0[4]	35.9[4]	3.73[4]	10.0
Smith's Food & Drug Centers Cl B/food & drug chain	38⅞	982	2,122.0	38.9	1.54	6.7
Universal Health Services Cl B/acute care hospitals	15⅝	215	654.7	18.0	1.28	6.5

Percentage ownership is of one class of shares; market capitalization is for all classes. [1] Latest 12 months, ended June 30. [2] Latest 12 months, ended Mar. 31. [3] Latest 12 months, ended Apr. 30. [4] Estimated. NA: Not available. *Sources: Tiger Management Corp.; Media General.*

Robertson's Tiger Fund has more than 5% holdings in these 13 stocks according to the company's latest 13D and 13G filings.

shorts in health care stocks have punished me terribly.

According to fellow hedge fund manager and friend Gilchrist Berg of Jacksonville, Fla., Robertson typically gets the smartest bull and the smartest bear on an individual security on the phone, lets them argue, and then goes long or short depending on who he thinks wins the argument.

An example cited by Berg: Last year Robertson held a position in lumber company WTD Industries, large enough to have to report it on a 13D. But after hearing a bearish report and checking with the analyst who recommended the company, Robertson blew his entire WTD position out over the next several days. His simple explanation to the news wires: "I was wrong." WTD Industries subsequently filed for bankruptcy.

During Tiger Fund's early years, Robertson took what he calls a "cheapskate" approach to buying stocks. He bought them simply because they were cheap in relation to what he saw as their potential value. For the last few years Robertson has tended to be more of a growth buyer. He's willing to pay more for companies whose management and prospects impress him. Like Warren Buffett, he has concluded that it is wiser to buy a great company at a good price than to buy a good company at a great price. Among his holdings today are Centocor, Home Depot and Johnson & Johnson, none of them statistically cheap stocks.

A hedge fund must, by definition, be short as well as long. Robertson sees great opportunity in Japan on both the long and the short sides. The odd thing about Japan, says Robertson, is that the very best companies sell at lower multiples of earnings than the very worst companies. He is therefore short on companies like Bank of Japan and Nintendo. On the other hand, he is long on electronic retailer Joshin Denki and the grocery chain Ito Yokado.

Robertson says he is excited about growth prospects in Mexico and is long on Teléfonos de México. Because of the extremely conservative way Germans account for earnings, he likes several German stocks. One of his favorites is Deutsche Bank, which owns 28% of Daimler-Benz at a minute cost.

Is Robertson an investor who can be emulated? No. His approach is intuitive, impossible to categorize. The widely assorted ideas in his portfolio reflect virtually all known investment disciplines: growth, value, turnarounds and, on the short side, excessive leverage. Robertson is open to all ideas—but he runs them through the computer that is his mind before he accepts or rejects them.

Gilchrist Berg puts it this way: "Julian's got the best animal instincts in the jungle." What do his instincts tell him now? Until fairly recently, Robertson had turned more cautious on the market. He said he didn't understand where all the money was going to come from to satisfy the world's capital needs. Further, with the great outpouring of public offerings, the supply/demand balance for stocks had turned negative.

Recently, sniffing the air again, he turned more optimistic. Why? His intellect and many of his still bearish friends told him that the investment situation was dangerous. But the markets, strong in the face of disturbing news, seemed to be telling a different story. Robertson concluded that the markets were right. As of late summer he remains predominantly on the long side.

What really constitutes financial strength in today's insurance marketplace? An impeccable balance sheet. And profits.

If you're concerned about the financial strength of your insurance organization, here are some questions you should ask.

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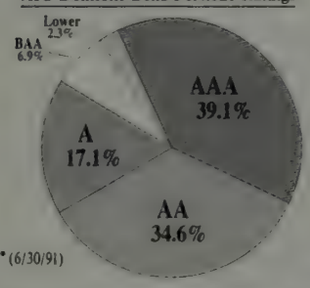

*(6/30/91)

We also believe underwriting profits are fundamental to the long term stability and health of a company. Hence, we are committed to meeting the needs of the public for insurance products while maintaining strict underwriting discipline.

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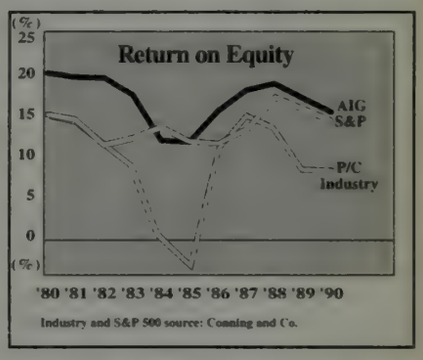

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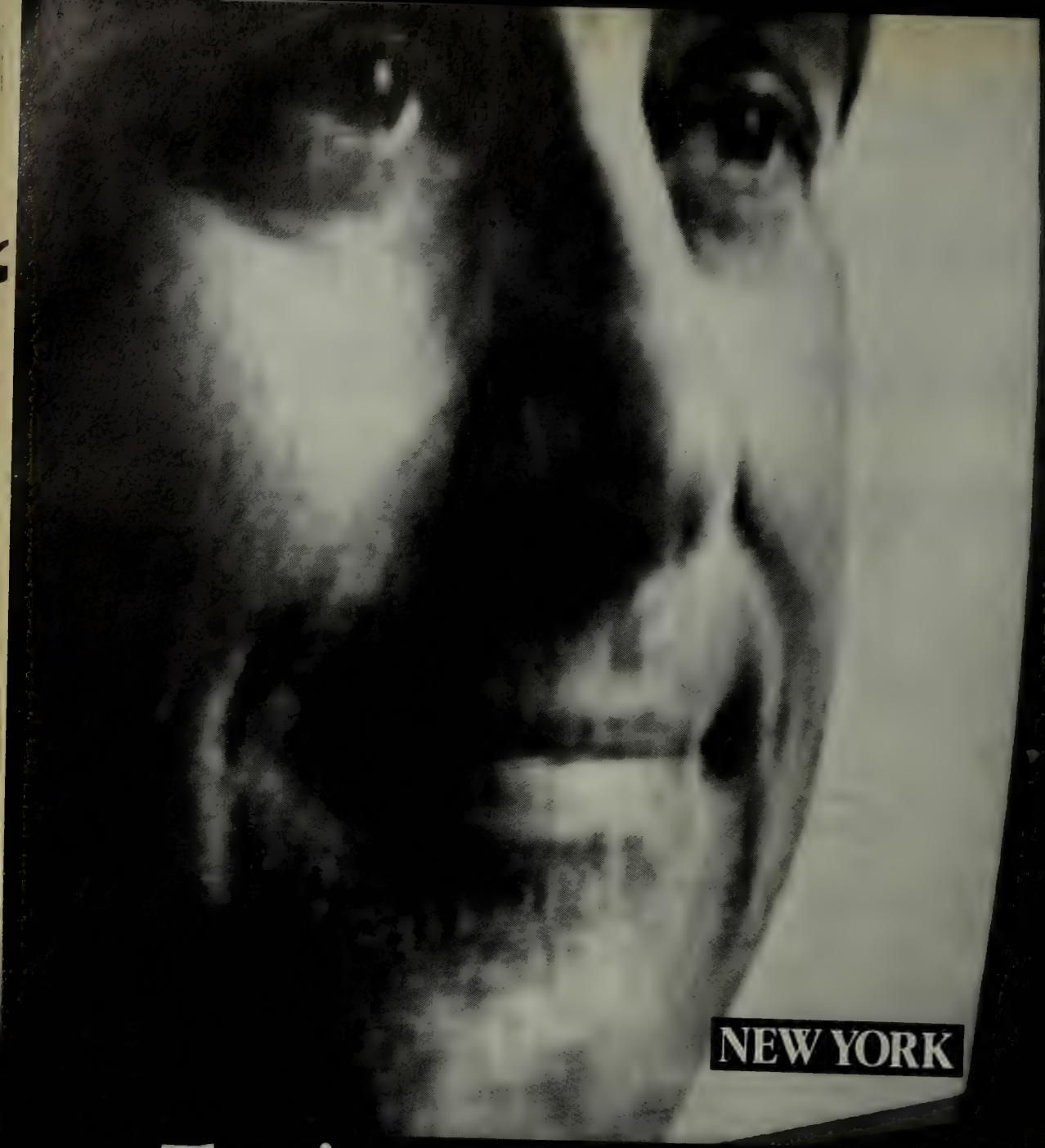

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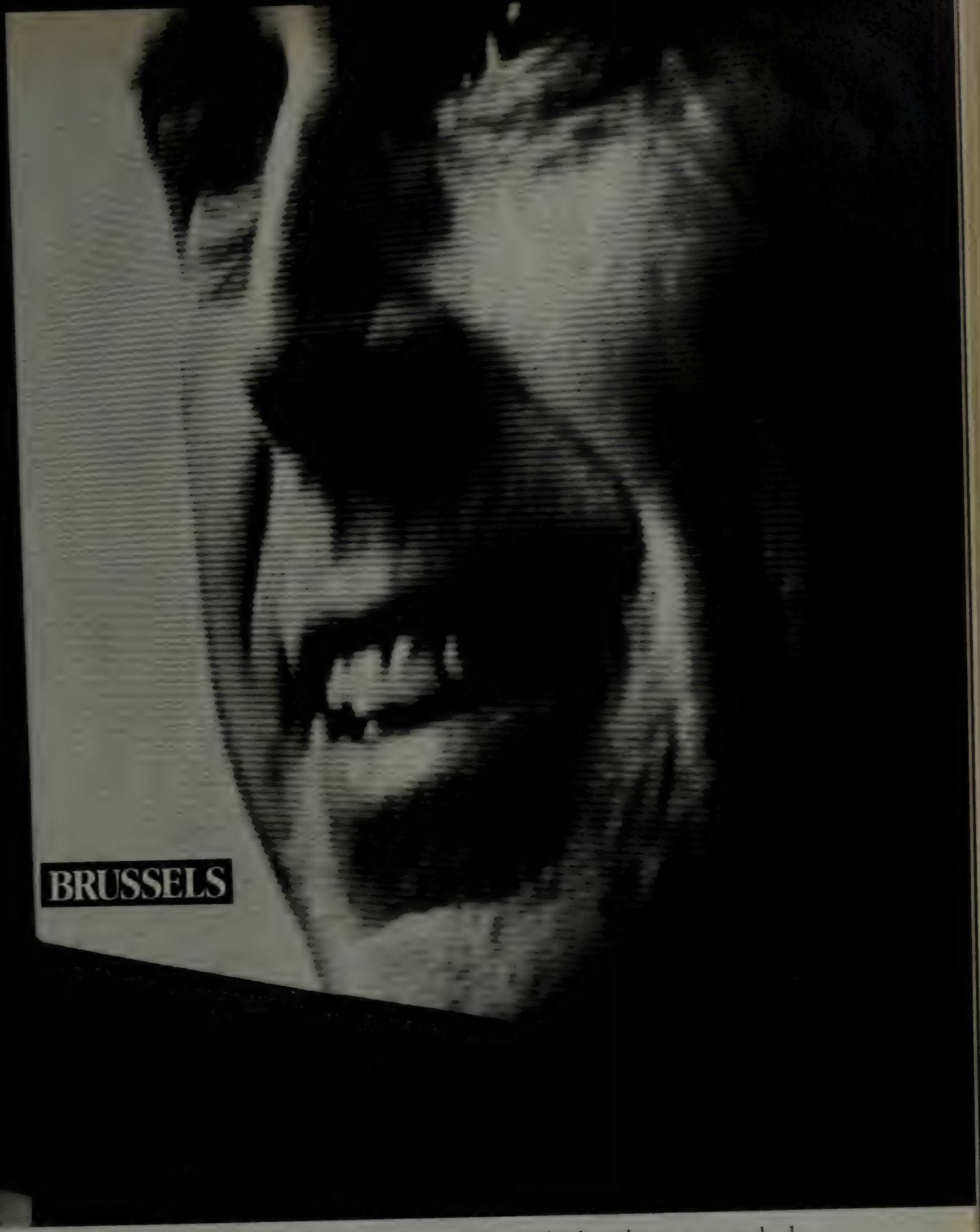

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Once a better-known name than Honda or Sony, Mikimoto, in not adapting to modern tastes, shows that even Japanese firms can become stuffy and complacent.

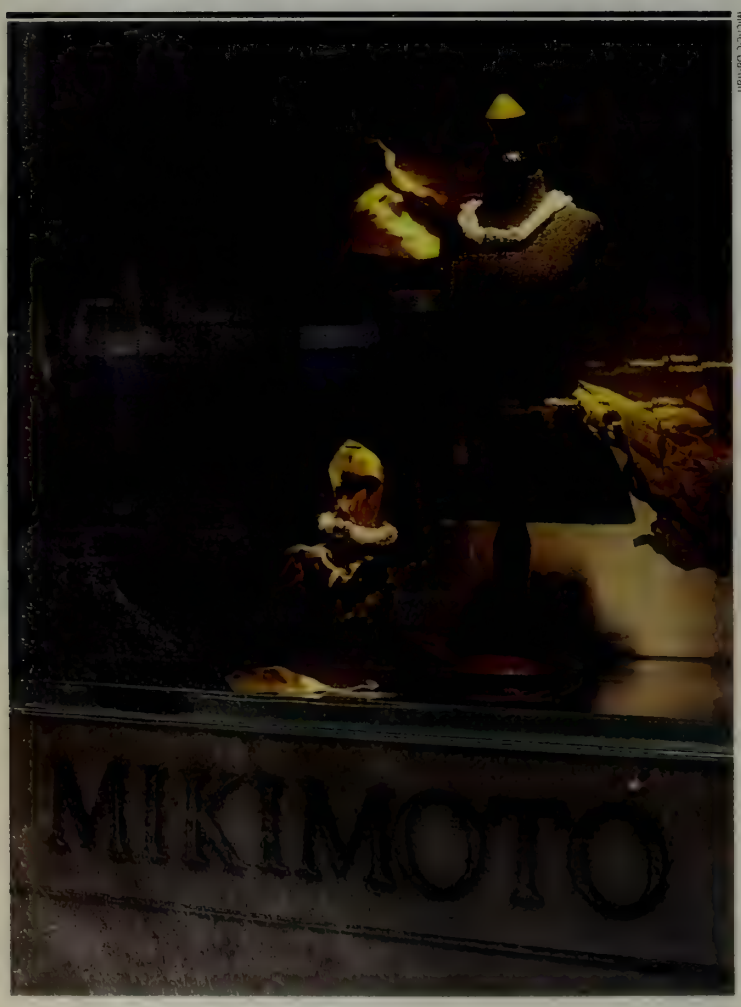
Faded luster

By Hiroko Katayama

KOKICHI MIKIMOTO, "The Pearl King," was canonized in textbooks once read by every Japanese primary school student. This son of a noodle shop owner near Nagoya developed and refined the technology for cultivating pearls in Akoya oysters in the 1890s, becoming one of the first Japanese businessmen to conquer a world market. His pearls sold in his shops in the toniest areas of the great cities—Tokyo, Shanghai, London, Paris, New York.

But Japanese companies are not invulnerable. The Pearl King died in 1954 and thus was spared from watching his creation wither. The booming jewelry sales in Japan have passed Mikimoto by. Western companies like Tiffany & Co. and Van Cleef & Arpels usurped Mikimoto's prestige as Japan's jewelry market grew to $20 billion (retail) during the 1980s. Mikimoto even managed to lose its preeminence in pearls, ceding its lead to a formerly obscure rival from Kobe, Tasaki Pearl Co. Mikimoto, which is privately held and 60% controlled by Mikimoto heirs, had sales of $210 million and earnings of $7 million in 1990. By way of contrast, Tiffany & Co. netted $37 million on sales of $456 million last year.

What went wrong? In a word: complacency. As the jewelry sales manager of one major Tokyo department store sarcastically puts it: "Mikimoto is a company of princes and princesses from good families who don't get their hands dirty."



Michele Bartlan

The Mikimoto shop on New York's 5th Avenue **No intention of following trends.**

The big growth in Japanese jewelry sales has come mainly from the youth market, especially from young women with high disposable incomes and from young men buying gifts for girlfriends. Ignoring this emerging market, Mikimoto continued to cater to conservative, well-heeled, middle-aged matrons. This at a time when rivals like Tiffany were deliberately adapting to more modern tastes.

Of course, some of the problems Mikimoto faced were beyond its control. Japan's pearl industry has suffered from severe water pollution, which has reduced pearl yields and quality, and from recent competition from large black pearls from the South Pacific. But Mikimoto might have avoided this problem had it capitalized on its image by moving earlier and more aggressively into gold, platinum and diamonds. Nonpearl jewelry products now account for 90% of Japan's jewelry market.

A series of uninspiring Mikimoto heirs ran the company until the early 1980s when Mitsubishi Bank, Mikimoto's main banker, stepped in. The current president, Shoji Sugita, a former Mitsubishi banker, took over in 1984 and has breathed some life into the company. Sugita belatedly pushed Mikimoto into nonpearl jewelry and opened some new shops in trendy areas targeted at young Japanese. Also helping him has been the modest comeback pearls have made in Japan in the last year or two: Princess Kiko, the new bride of Prince Akishino, the second son of the emperor, likes pearls, and millions of young Japanese women try to emulate her look.

Ryo Yamaguchi, managing director of Mikimoto and a 30-year company veteran, concedes the company made mistakes but insists it has no intention of becoming trendy. "The image of our old (Ginza) store has declined, but unlike Tiffany or Van Cleef & Arpels, we don't intend to sell products just to flatter young new customers. We sell the products we want to sell."

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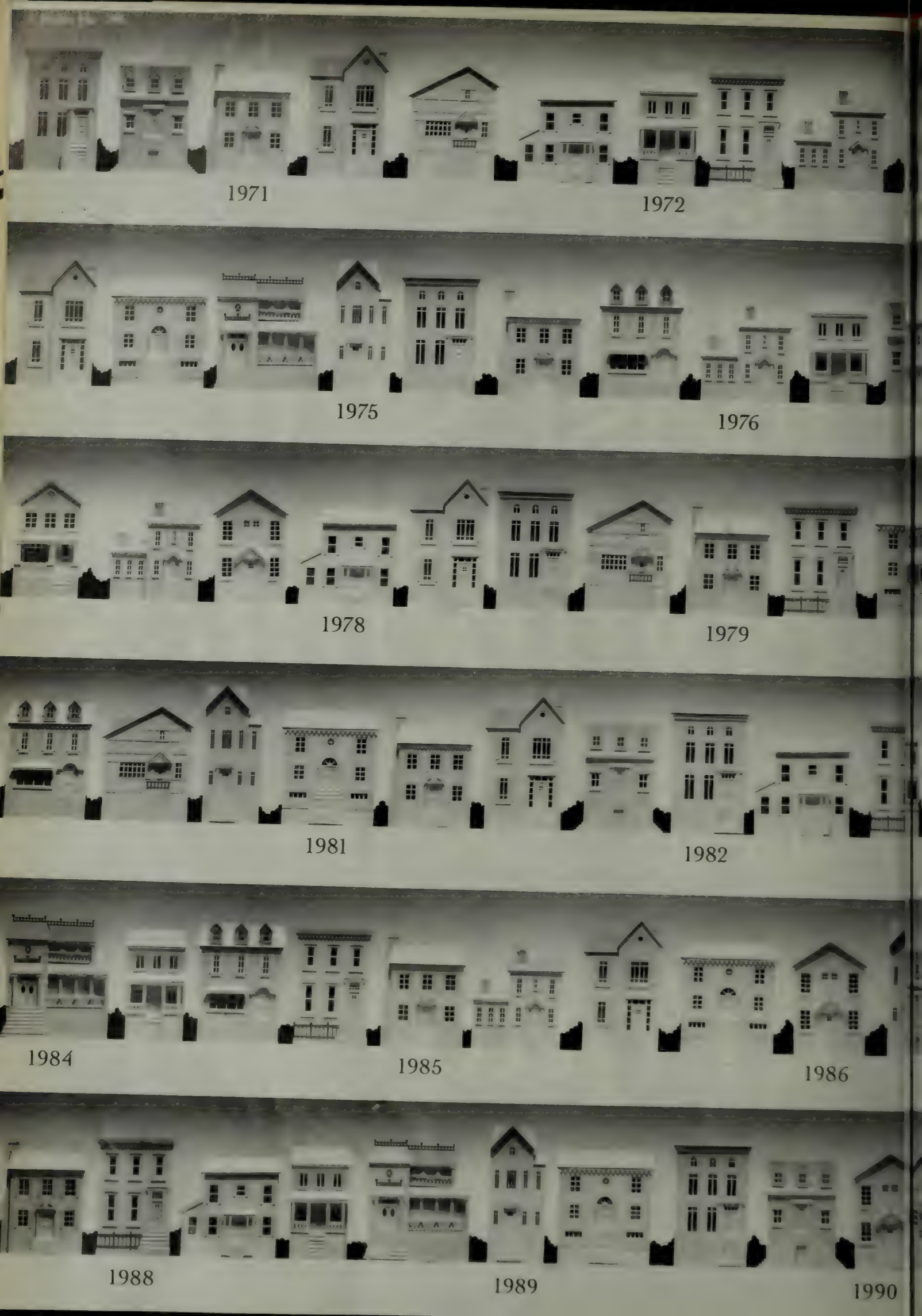
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For nearly 50 years housing has pulled the nation out of recession. Unlikely in 1991.

The little engine that can't

By William Tucker

PEOPLE WHO WORRY about a weak recovery from the recession are especially concerned about housing. In every recession since WWII, housing starts have led the recovery. It's not in the cards this time.

Over the last two decades home builders put up an average of 1.6 million new units per year. This year units are forecast at 1.05 million. The biggest drop is in apartments and other forms of multifamily dwellings.

Among the culprits in the housing slump are changing demographics, the Tax Reform Act of 1986 and the S&L crisis, plus a growing maze of local regulations that adds thousands of dollars to the cost of building the typical house.

First, demographics. "New household formation will be down in the 1990s," says David Seiders, chief economist of the National Association of Home Builders. "Most of the baby boomers have made their first home purchases."

With household formation slowing, the country is struggling to absorb the 1980s overbuilding. "The 1980s made us a postshelter society," says James Hughes, professor of urban policy at Rutgers University. "People bought houses not for a roof over their heads, but as a financial tool, a tax shelter, a speculative investment. Now they're back to buying just for a place to live." No wonder: Statistics compiled by Salomon Brothers show that housing over the past five years ranked ninth among 13 common investments. No longer do people say housing prices go in only one direction—up. In some areas it's cheaper to rent than to own.

There may be disappointments ahead, therefore, for those who have recently bid up prices of home-building stocks. As a group, the prices of Centex, Hovnanian Enterprises, Kaufman & Broad, Lennar Corp., PHM Corp., Ryland Group, Toll Brothers, UDC-Universal Development L.P. and U.S. Home more than doubled between last November and early June in anticipation of a recovery. But they have since tumbled 11%, as hopes for a reasonably strong recovery have faded. U.S. Home went into Chapter 11 on Apr. 15.

"There's going to be consolidation [among home builders]," predicts James McEneaney, president of Ryland Building Co., a subsidiary of Columbia, Md.'s $1.3 billion (1990 revenues) Ryland Group. "Builders will sell or downsize." Gregory Nejmeh, senior vice president and homebuilding analyst at Shearson Lehman Brothers, thinks the strong home builders will survive and, eventually, prosper. But he worries about the weaker ones. "We're recommending Centex, PHM, Ryland and Lennar, in that order," says Nejmeh. "Beyond these four, I'd avoid the group."

Is there hope for a stronger-than-expected housing recovery? The demographics won't change in the near future. But it might help if there were some relaxation in the building, zoning and environmental regulations that drive up prices and force builders out of the low end of the market. An abolition of rent control would also help by encouraging building of apartments. In one interesting correlation, figures from the 1990 census show that, among the nation's 200 largest cities, those with rent control or some form of rent regulation have almost twice as many homeless per capita as cities with unregulated rents.

Times change. Says the Urban Land Institute's David Stahl: "We always used to say housing was the engine that drove the recovery. It's not going to happen this time." For a lift, the economy will have to look elsewhere this year and next.

Suburban housing in Colorado

The baby boomers have already made their first home purchases.

What's uncommon about the Common Market?

The momentum is beginning to pick up. The Single European Market is no longer just a vision. It will soon become a reality.

Eliminating national boundaries in your business will not necessarily lead to boundless growth.

The closer the date of January 1, 1993 approaches, the fewer the remaining obstacles to European economic integration. Some of these impediments are small and some are large.

But of one thing you can be certain: they are definitely being overcome.

The political will is there, and much of what still divides the twelve member states is on its way out.

But even with all the necessary European unification measures, just how uncommon will the Common Market actually be in just a couple of years?

The experts all agree: the Europe of the future will continue to be characterized by contrast and complexity.

Not only because of its great linguistic and cultural diversity.

But because Europe is about to be transformed into a continent of regions rather than of separate nations.

Regions which are above all engaged in strong economic competition.

Regions which have numerous ways of presenting themselves in the best possible light – a situation which complicates decision-making for potential investors.

Fortunately, there is something uncommon which is common to the entire Common Market.

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For you see, while others were just beginning to think European, Dresdner Bank was already taking action.

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The breakup of the Soviet Union presents great opportunities for U.S. investors and business people. But to grasp them they will have to recognize that there no longer is a Soviet Union.

Siberia: a warm place for investors

By Vladimir Kvint

SHORTLY BEFORE the failed coup took place, this joke came out of the Soviet Union:

Mikhail Gorbachev sits in his office, musing on a huge portrait of himself. "Soon, my friend, the people will take us down," murmurs Gorbachev.

"You are a fool," the portrait responds. "The people will unhang me. They will hang you."

The joke was close to the mark. Leaders of the coup had counted on the Soviet people being ready to dump Gorbachev. In that they were probably right. But the coup leaders, along with most foreign governments, ignored the fact that Gorbachev had become irrelevant. It was Boris Yeltsin and his Russian government, not Gorbachev and the Soviet government, that the people and large parts of the military defended against the coup.

Which is another way of saying that the Soviet Union is dead. In its place 15 sovereign nations are emerging, Russia the largest by far. Some of these new nations—or old ones reborn—will gravitate economically toward Russia; others will move closer to Eastern Europe or the Balkans.

Each of these new nations will seek a seat in the United Nations, will establish its own diplomatic relations and create its own military forces. Most of them will be as independent of the old center as Poland or Hungary has become. What remains in the Kremlin will be something like the British Commonwealth of Nations: a ceremonial, consultative body based upon common interests whose commonality will fade over time.

A late August headline in the *Wall Street Journal* said that people "worry" that the Soviet Union may break up. Why this should worry anyone in Washington or anywhere else is beyond me. I suppose some people simply cannot confront change. This fission is a wonderful development. Breaking the vast empire into more manageable pieces, grouped on economic rather than on political lines, presents tremendous opportunities for foreign business.

The U.S.S.R. will no longer be the Union of Soviet Socialist Republics. The terms "socialist" and "soviet" will disappear, just as the word "empire" disappeared with the emergence of the British Commonwealth. Its disappearance will be of more than formal significance because the breakup hastens the move toward market-based economies. All political maps, encyclopedias, political directories will become outdated.

The Baltic republics, Georgia, Moldavia, Armenia, the Ukraine, Belorussia have called it quits. Others may follow. They will not even be part of the new, loose union. Altogether, more than 80 million people will secede entirely.

From now on the republics remaining in the union will decide what rights, functions and money to delegate to the center. The one who pays is the one who orders the music. Republics will finance the army, which will shrink because of that.

Civil war? Most unlikely, except for the small-scale continuing war between Armenia and Azerbaijan and some ethnic clashes in Georgia and Central Asia. Over the last 18 months the leaders of the republics proved that they can solve mutual political and economic problems directly.

What's the timetable for the new order? The treaty that will replace the one aborted by the coup will last for about three years as a progressive document of a transition period. It will take at least that long for the various republics to stand on their own feet economically. Except for Russia, the Ukraine, Belorussia and Georgia, none of the other, smaller new republics has an economic basis for independence. At least not yet.

Every historical epoch creates its markets out of a mixture of politics and economics, and this one will be no different. There was the European Hanseatic cities union in the 14th to 16th centuries. There were trade routes like the Silk Route. Now America, Canada and Mexico are

Chas. B. Slackman

uniting in one market, as are European countries.

In place of one gigantic market created by force and maintained by force in the old Soviet Union, the new market groupings will follow more economic logic, which will itself lead to different political ties. While lecturing in Austria recently, I witnessed a similar process close up. Austrian, Hungarian and Czechoslovakian businessmen were going back and forth, putting together an economic grouping not unlike that of the old Austro-Hungarian empire; this grouping will probably be the link between Western Europe and the countries farther east. The Ukraine, having left the Soviet Union, will gravitate toward this grouping.

Siberia, though part of the Russian Republic, will get a certain independence. Because it faces the Pacific Ocean, it will become a Pacific Basin economy in good part. A federation of several Siberian cities has already been created. New air routes are connecting California and Alaska with far eastern Russia. In June Alaska Airlines began offering service three times a week from Anchorage to the city of Khabarovsk. And the Soviet carrier Aeroflot has had weekly flights to Khabarovsk from San Francisco via Anchorage since May. All this suggests American business should look at Siberia via the Pacific rather than via Moscow.

Kazakhstan and the republics of Central Asia—Tadzhikistan, Uzbekistan, Turkmenistan and Kirgizia—will soon establish a kind of union among themselves. But this union will not gravitate toward the Middle East, despite historical and religious ties. As a market, these republics will establish close economic relations with the Russian Republic, but as equals, not as colonies as under the Communists.

All this turmoil, this breaking of old ties, presents a tremendous opportunity for U.S. business. This year more than 100 joint ventures a month have been created in the U.S.S.R. Since August 1990 the U.S. has been the leader in total capital invested.

But the Americans are not necessarily looking in the right places. Now 60% of Soviet-American joint ventures are situated in Moscow, focusing on the western part of the old Soviet Union. Small Estonia has as many joint ventures with Americans as Siberia does. Yet 75% of all Soviet natural resources are found to the east of the Ural Mountains. Western investment in Siberia and the Far East is very safe. But the U.S. will need to move fairly fast. The Japanese are already very active in Russia's Far East, and the South Koreans even more so. Investments in fisheries and timber will pay off fast in Siberia.

American investment in the reconstruction of the machine-building and metallurgical plants may be very profitable. Factories to recycle the rich mining, metallurgical and agricultural waste that covers former territory of the U.S.S.R. are badly needed and can be highly profitable. Already the Japanese buy coal waste from Yakutia and other regions in the Russian Republic to produce chemical elements for manufacturing.

The new order in the East will require huge investments in communications and transportation—and large doses of modern technology. The KGB has been artificially blocking cooperation in these spheres in efforts to keep the Soviet Union isolated. The KGB will have a diminished influence in the new republics. I think a fiber-optic cable will soon connect Europe and Japan through the Soviet territory. The time has come to fully use the potential of the Arctic Seaway. I have studied it for many years and know that it is the shortest and the cheapest way from Europe to Asia as well as from Vancouver to Europe.

There is so much to be done that there is opportunity for everyone. But first Western governments and Western investors must learn from their own experience that aid and investment channeled through central government is inefficiently used. Money spent to shore up Gorbachev is money wasted. Government loans should be channeled only to specific republics and for specific programs. Private investors should concentrate on projects, backed by reliable feasibility studies, that can pay back their investments in three to five years.

The Union of Soviet Socialist Republics is as dead as the Holy Roman Empire. The Russian people know this. Foreigners haven't yet gotten the full message. ■

Vladimir Kvint is Distinguished Lecturer at Fordham University and Babson College. He advises American companies and is a frequent contributor to FORBES.

You can't drive a car with your foot always on the brake, says Giddings & Lewis' Bill Fife. Same goes for running a company.

Give it the gas

By Tatiana Pouschine

"MANY COMPANIES have become so used to putting on the brakes that they have forgotten where the accelerator is," says William Fife, who seems to know exactly which pedals are where.

Fife, 54, is chairman and chief executive of Giddings & Lewis, Inc., the machine toolmaker based in tiny Fond du Lac, Wis. While by no means profligate—he works out of a modest office overlooking the corporate parking lot—Fife aggressively reinvests in his company's future. Expenses for research and development hit 10% of sales last year, compared with an average of 3% for American industry as a whole. Add to that the company's capital spending—3% of sales, on average, since Fife took the top job in 1987. That was two years before the company was spun off in a public offering by Canadian manufacturer AMCA International.

Fife's spending and the overall resurgence of U.S. manufacturing have brought impressive results. Betwe 1987 and 1990 Giddings' sales do bled, to $242 million from $125 m lion. Earnings reached $20 milli ($1.85 a share) last year, or 8% sales. In comparison, sales at two Giddings & Lewis' main U.S. cor petitors, Cross & Trecker and Cinci nati Milacron, have stayed virtua flat since 1988; both companies lo money last year. Analysts believe Gi dings & Lewis' earnings will approa $2 a share this year.

Now Fife is making one of th biggest expenditures of his career. I June he announced that Giddings & Lewis will pay over $70 million fo Cross & Trecker, a Bloomfield Hill Mich.-based toolmaker that lost $ million last year on sales of $43 million. Cross & Trecker has reacte favorably to the proposal; its share holders will vote on the matter nex month. Anticipating a marriage, in vestors have bid up Cross & Trecker' shares to $5.50 from roughly $3

William Fife, chief executive of Giddings & Lewis, and his new 126-foot-long planer mill

He's not afraid to think big.

share. After an initial selloff, Giddings' shares have recovered to $24.25, or ten times next year's anticipated earnings.

Fife is a man who takes great pride in finding solutions to difficult manufacturing problems posed by his customers. Take, for example, a job Giddings & Lewis did for Connecticut-based Pratt & Whitney. Pratt & Whitney makes cylindrical parts for some of its jet engines. It uses a machine that operates on a vertical axis, permitting the part to be cut from two sides at once. A cutting instrument comes down from the top to cut on the inside of the part, while another tool cuts on the outside.

Pratt & Whitney wanted to enhance its overall manufacturing efficiency by automating the tool changing process so that a machine could pick up a new tool and put it into position to cut the part. The engineering and design problem was dealing with very little space around the side cutter.

"Everybody balked, nobody wanted to try it," says William Bradley, who managed machine tool planning at Pratt & Whitney. "But Giddings & Lewis was willing to give it a try." When Giddings & Lewis' engineers came up with a way to work within the restrictive space, Pratt & Whitney was able to do roughly twice as much cutting of its cylindrical parts, and Giddings won an order for several machines.

Another example: A manufacturer of food processing equipment asked Giddings & Lewis if the toolmaker could help it improve productivity. The manufacturer had 80% of its market but wanted more.

At first Fife was dubious. The customer was already highly efficient. But he kept gnawing on the problem. He put two of his best industrial engineers to work for two weeks studying the factory layout, at no cost to the manufacturer. Fife's men came back with certain recommendations, including how to improve software programs and the factory layout. A Giddings & Lewis engineer then spent several months redesigning some of the software that ran the manufacturer's machines. All of these changes reduced by one-third the inventory being worked on at any one time.

Fife attributes his aptitude for inventive problem-solving to growing up on a farm. "When you are on a farm," he explains, "you have to keep those machines going to keep the income coming in. You have to be quite creative."

Fife, a graduate of John Carroll University, served as an enlisted man in the Navy. He was discharged in 1958 and got a job as a sweeper with Inland Steel, cleaning up the metal scraps that flew out of machine tools. From Inland Steel he went on to Chase Brass & Copper, then to Combustion Engineering's Invalco divi-

Worker George Yerkman supervising a Giddings & Lewis machine that drills and mills

Competing with high-tech machines instead of low labor costs.

sion, finally to Cross & Trecker's toolmaking subsidiary Kearney & Trecker. From there he was recruited by Canada's AMCA to head the division that was later spun off as Giddings & Lewis.

By the time Fife arrived in 1987, he knew that intelligent reinvestment—not slavish cost-cutting—is the key to a company's long-term commercial health. Fife likes to note that it pays to make machines more productive, rather than people less expensive. But, for a company that claimed expertise at increasing its customers' productivity, Giddings & Lewis was itself looking rather anachronistic. For example, Fife found fewer than 20 computer-aided design and computer-aided manufacturing (CAD/CAM) systems in the company. Most of the firm's 350 engineers were still using pencils and erasers.

"We knew we had a very serious bottleneck in engineering," Fife recalls. "If we didn't open up that bottleneck, it didn't make any difference what people on our manufacturing floor did."

Fife began spending heavily to give his engineers computer power. The company now has 170 CAD/CAM systems in place, and employees who know how to use them: Six workers at a time have been excused each month for training on the new computer equipment. Giddings & Lewis may spend up to $9 million on a program to link the operations via satellite, allowing all data to flow instantaneously between the plants.

Fife believes it is Giddings & Lewis' job to apply the latest technology to the manufacturing process in each of the 45 industries it serves. Often, jobs are tailored to the customer's needs, so the risk of underestimating the complexity of a particular job runs high. To give the company the freedom it needs to take these engineering risks, Fife works hard to reduce the company's financial risks. At the moment, Giddings & Lewis is entirely debt-free, having paid down in just eight months the $16 million in debt that came with the 1989 spinoff from AMCA International.

"None of us has sat in front of bankers," says Fife. "It's much more fun for us to sit in front of customers."

Within the next few months, however, Giddings & Lewis will probably take on $35 million of new debt in order to acquire Cross & Trecker, which itself has around $23 million in long-term debt. But for Fife the acquisition is a great opportunity. He knows that to develop to its full potential, Giddings & Lewis needs to expand overseas. Consider: The U.S. represents over 10% of machine tool purchases, but Europe, including Eastern Europe, represents around 45% of the world's consumption of machine tools.

"If we are going to grow as an international company, we must get a presence in the German marketplace," says Fife, pointing out that Cross & Trecker already has a plant in Stuttgart. There are times to hit the brakes and times to accelerate; these days Bill Fife is giving Giddings & Lewis the gas. ■

Back in the U.S.A.

IN RETROSPECT, the media's handwringing in the mid-1980s over the death of manufacturing in America and the "hollowing out" of U.S. corporations seems to have coincided with a turnaround of the manufacturers' fortunes. Since 1987 the U.S. share of world trade in manufactured goods has increased from around 11% to almost 13% in 1989. Says Robert Lipsey of the National Bureau of Economic Research: "For the U.S. to have any increase in share is quite remarkable, because you have these fast-growing Asian countries. Just on that account alone, without any change in our relative competitiveness, you would expect a decline in the U.S. share."

The 50% fall in the dollar since 1985 has certainly helped. More important, however, manufacturing productivity in the 1980s grew at an annual rate of 3.6%, almost triple the growth rate in the 1970s. (In contrast, productivity in the service sector grew at less than 1% in the past decade.)

Investment analyst Alexander Paris, of Barrington Research Associates, expects to see a boom in U.S. capital expenditures in the years to come—but in new machinery, not bricks and mortar, as U.S. companies like Caterpillar work to make existing space more efficient. U.S. automakers will spend enormous sums on new products and processes as they race to catch up with the Japanese, Paris predicts.

As new technologies reduce the labor-to-capital ratio (Fife says labor today typically accounts for only 15% of a manufactured product's cost), U.S. multinational corporations may be producing less in their foreign plants for export back to the U.S. Ingersoll-Rand, for example, went ahead with a multimillion-dollar project to modernize its pump products plant in Allentown, Pa. As a result of its new computer-controlled machine tool system (engineered by Giddings & Lewis), Ingersoll-Rand stopped using Korean factories to produce parts. Furthermore, the company didn't have to hire any new workers.

Meanwhile, U.S. exports of manufactured goods are also surging. They reached $104 billion in the second quarter of this year, up 7% over the same period last year. The U.S. merchandise trade deficit, currently running at $15.6 billion on a quarterly basis, is the lowest it has been since 1983.

Eli Lustgarten, an analyst with PaineWebber, sums up the situation this way: "We are shifting from a lean-and-mean [i.e., cost-cutting] philosophy of the Eighties to a world-class manufacturing philosophy of the Nineties." To be world class, he adds, means increasing research and development, new product development and investment in manufacturing processes and techniques to reduce costs. Good news, that, for Giddings & Lewis and the other U.S. capital goods equipment makers. –T.P. ■

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is
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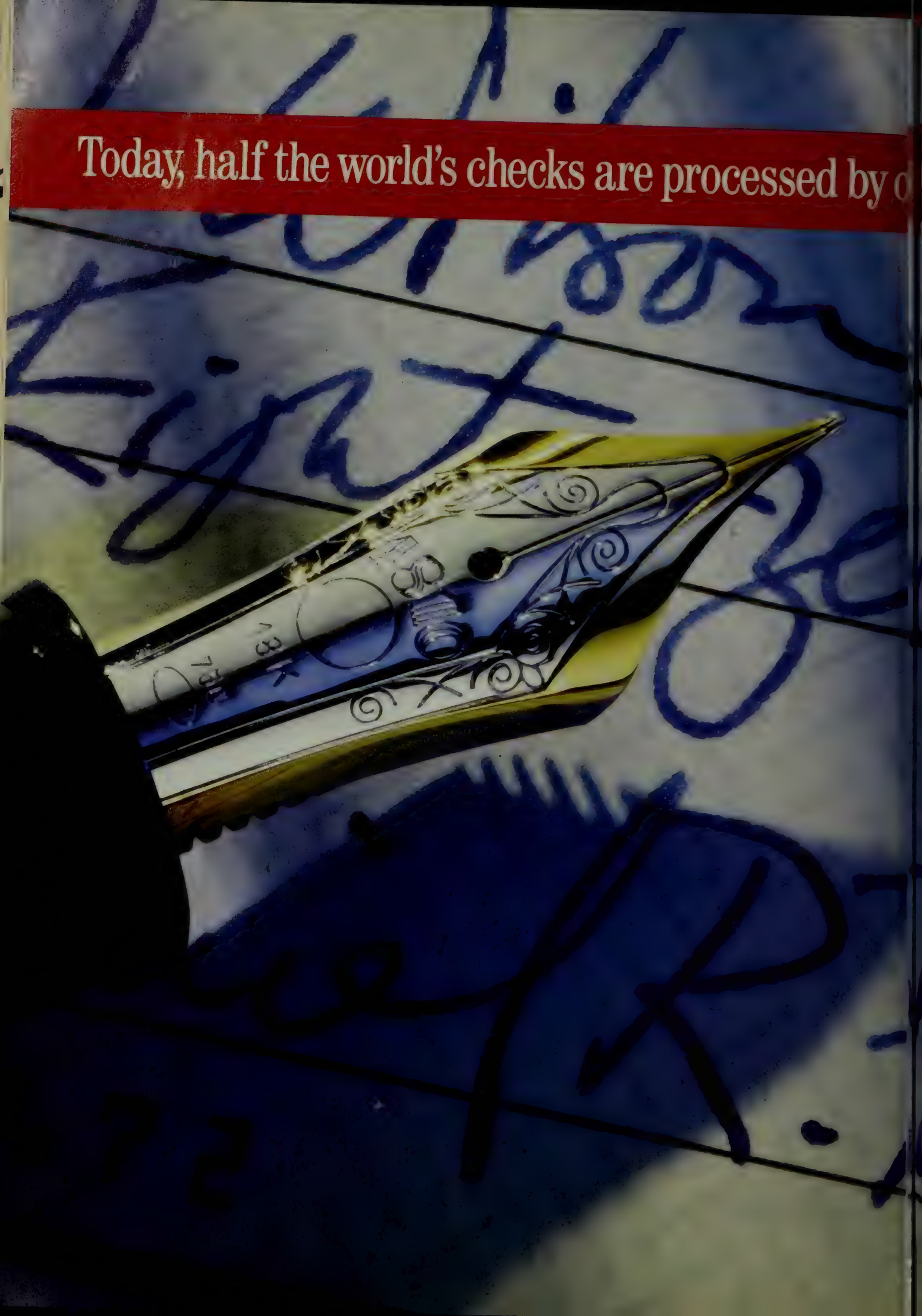

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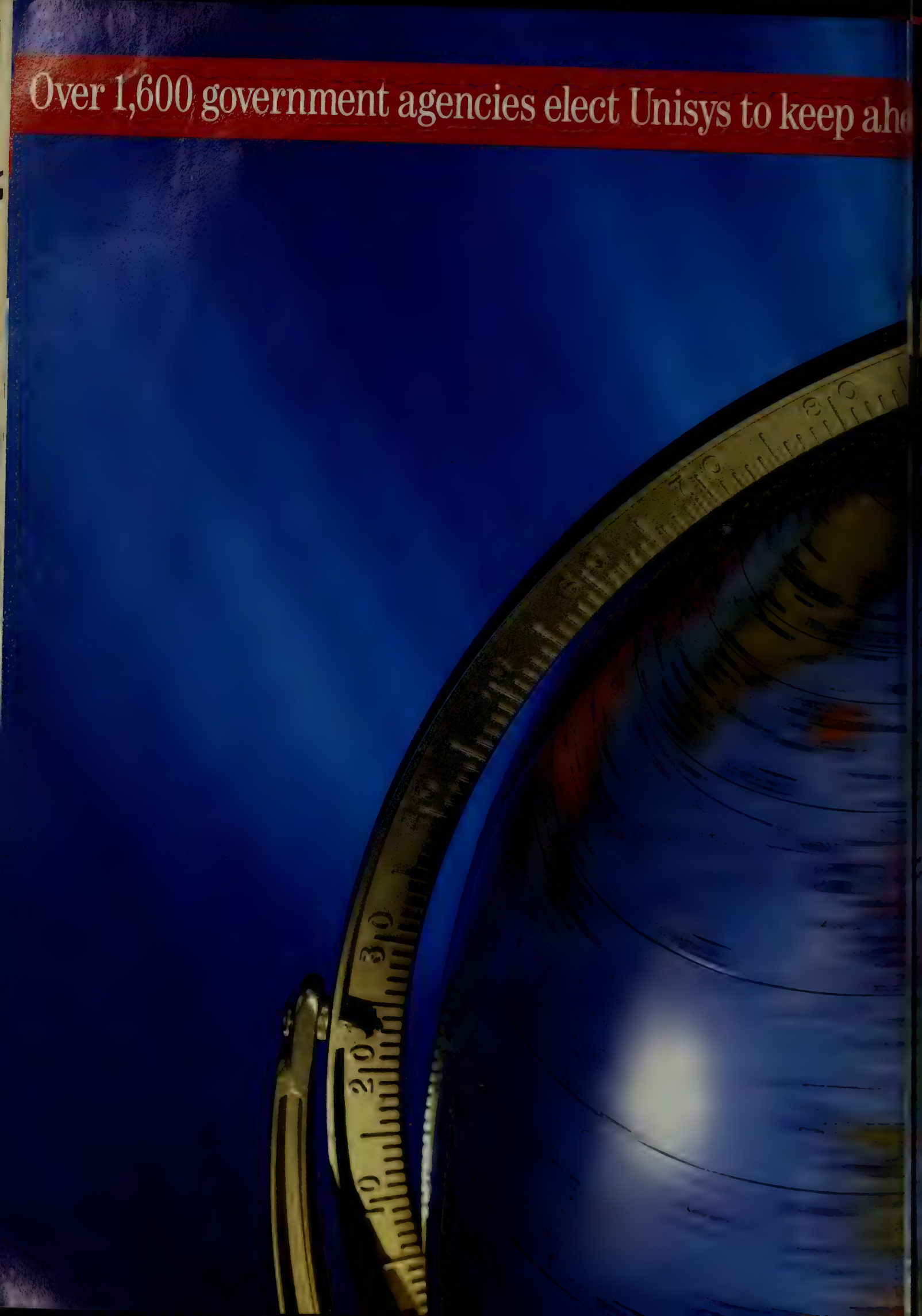

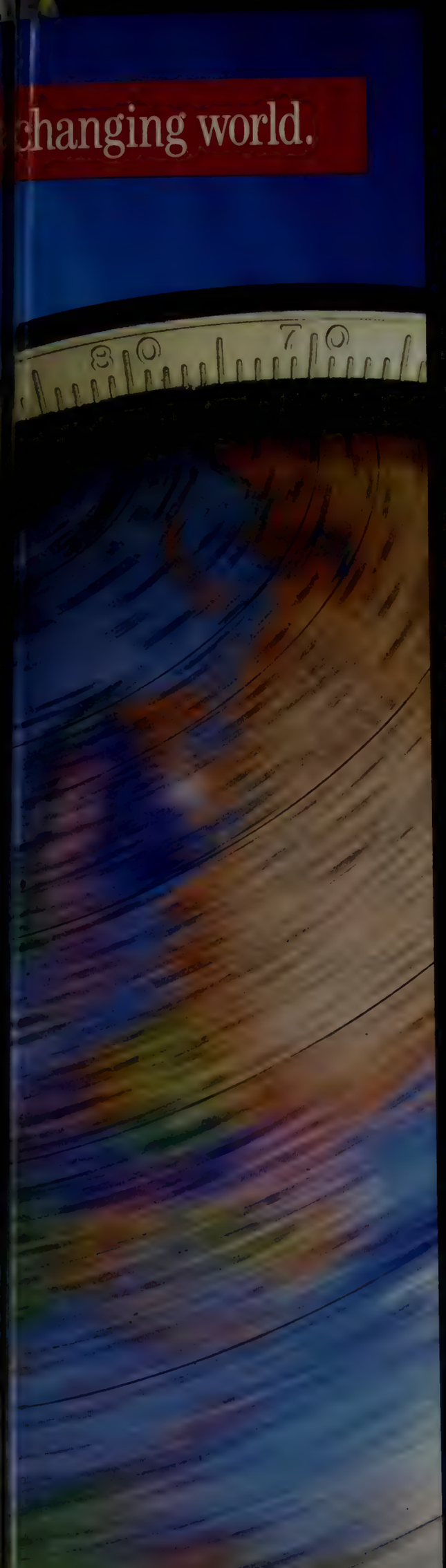

The business of government is to meet the changing needs of people. And that takes powerful, reliable information systems. Which is why you'll find Unisys systems at work in the U.S. federal government, all 50 states, hundreds of counties and cities, and in governments throughout the world.

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Recently, Unisys systems were chosen to support H.U.D. requirements. And state agencies in Ohio, Pennsylvania, Florida, Michigan and California have given Unisys a vote of confidence by placing large new orders.

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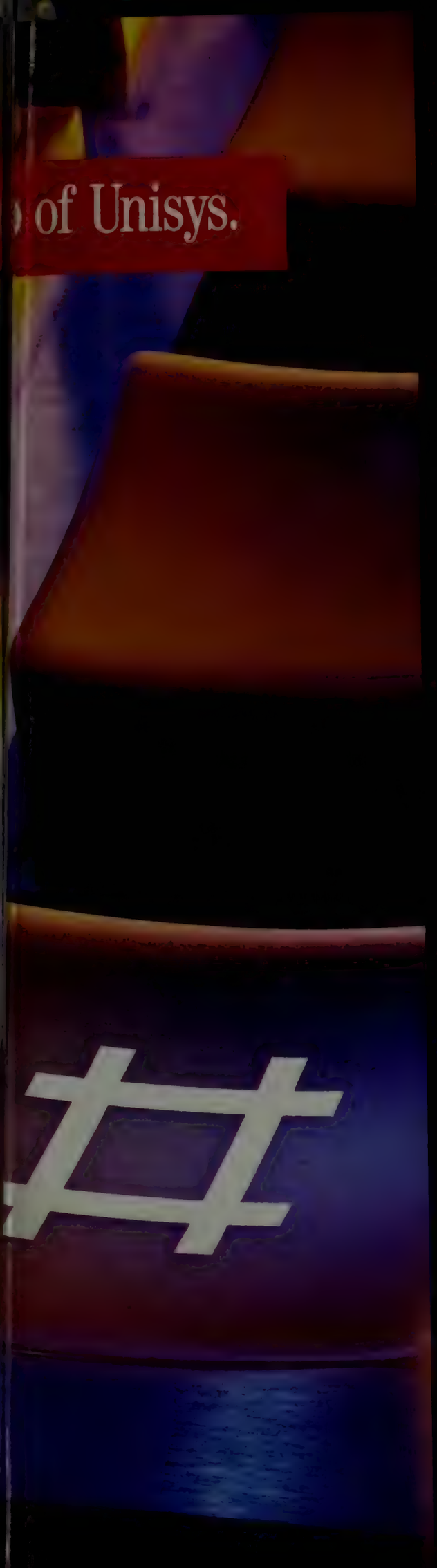

Telephone companies depend on their ability to execute millions of transactions second by second. So they need to work with a computer company that is second to none.

Which is why telephone companies choose Unisys. In fact, if you use a telephone in the U.S., odds are you're also using a Unisys computer.

For over 25 years, we've helped phone companies track the complex cabling that connects customers to telecommunications networks. Today, we are providing systems to develop enhanced services like voice messaging and fax mail, in addition to Emergency 911 capability.

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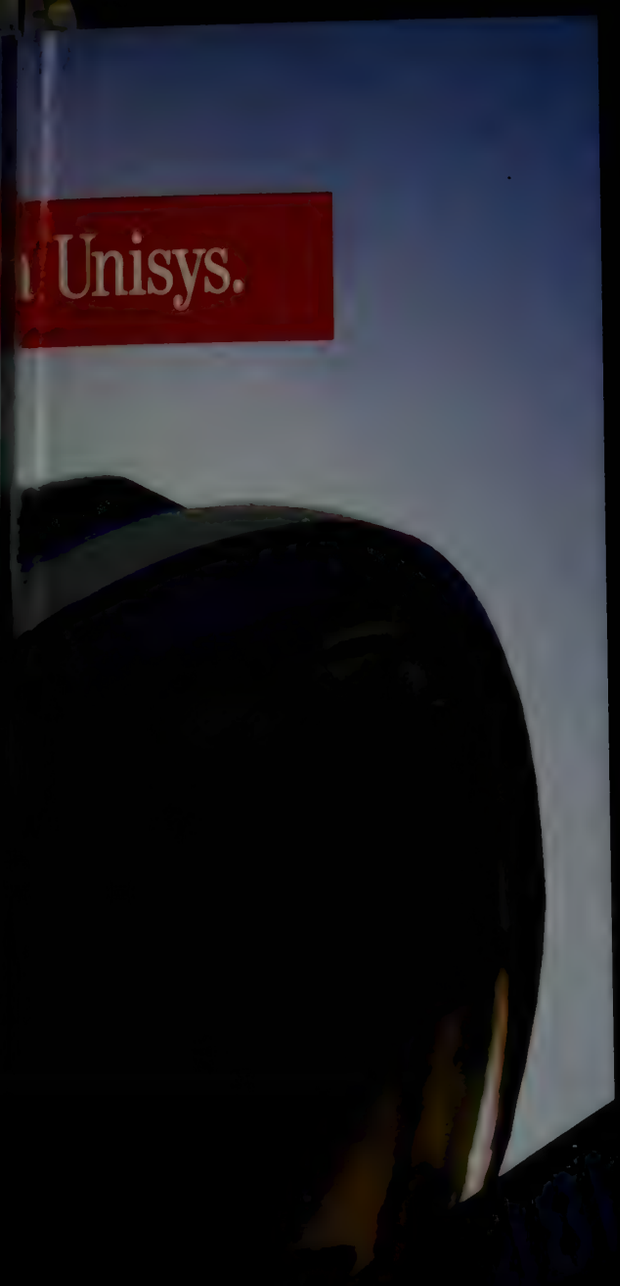
Over one-third of the world's air cargo gets carried a



When an airline moves cargo, the backbone of its business is the strength of its information systems.

They have to provide crucial, real-time information that books, schedules and tracks every last shipment. That's why ten of the world's top cargo carriers rely on Unisys systems to move cargo. They know that Unisys has 30 years of experience providing mission-critical information systems to more than 140 airlines.

Most recently, Mexicana Airlines chose Unisys to make sure their cargo business flies high, joining a roster that includes Air France, United, Cathay Pacific, as well as Northwest and Lufthansa.

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So if running your business organization depends on high-volume, transaction-intensive computing, call Unisys at 1-800-448-1424, ext. 66.

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ow far did the ripples extend when Salomon fixed ne Treasury note market? Nobody yet knows.

More victims?

y Richard L. Stern and Laura Jereski

THERE MORE to the Salomon scan- l than has yet come out? Yes.

What's known is that Salomon rothers grabbed a bigger share of the 12 billion two-year Treasury note sue than it was legally entitled to in n auction this May.

What has not yet come out is the remendous ripple effect the fix may ave had on the various money mar- ets around the globe. There is little oubt that it cost bankers, brokers nd traders more than it cost the irect participants.

These Treasury auctions are the government's way of financing its ebt by selling bonds and notes in ealed bidding involving up to 40 rimary dealers.

Treasury rules dictate that no par- icipant in the auction can be awarded nore than 35% of the issue. By man- ging to capture 44% of the inventory, alomon was able to charge higher rices to those dealers and investors hat wanted the securities in the after- market.

Dealers frequently short anticipat- d issues as a way of making a profit on mall swings in interest rates. Since it ontrolled so much of the issue, Salo- mon was in a position to gouge these horts when they tried to cover. Shorts and others who bought or borrowed the securities in the after- market may have lost $100 million.

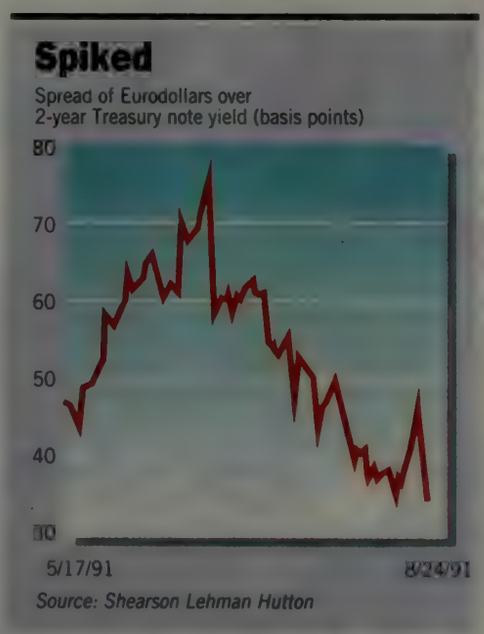
How much of this money found its way into Salomon's pockets? No one knows yet, but the amount could have been in the tens of millions.

Down crashed John Gutfreund. In came Warren Buffett.

But no one has yet focused on the probable collateral effect of the appar- ent manipulation. Here's what's in- volved: The interest rate on the two- year note is an important benchmark used by corporations, banks, brokers and traders in figuring the cost of money. For example, a bank may peg the interest rate it charges borrowers to the rate on the two-year note, using the rate as a base and then tacking on a spread.

Though the interest rate paid on the two-year note varies, the spread between it and interest rates on other loans and securities of similar dura- tion is fairly constant—Treasury bonds, CDs, Eurodollar futures and even mortgages.

For example, the spread between 2- year Treasurys and 30-year Treasurys had been about 170 basis points (1.7%) just before the May auction. Because Salomon drove up the prices of the 2-year notes (thus driving down the yield), the gap widened to about 200 basis points. Thus, by ma- nipulating the price of this single auc- tioned issue, Salomon may have dis- turbed interest rates everywhere around the world.



Andy Christie/Forbes

Salomon's manipulation of the May two-year Treasury notes caused losses in the futures market when the spread between Eurodollar futures and the notes almost doubled.

Suddenly, some routine trades used in the regular course of business by corporations, banks and brokers to hedge positions had become much more expensive.

Why? Take the Eurodollar market, where traders, including corpora- tions, brokers and banks like Chemi- cal, Citicorp and Bankers Trust, go to hedge interest rate risk. The typical bank lender these days wants a float- ing-rate loan, but the borrower would much rather commit to a fixed inter- est rate.

So the two parties match their needs through the so-called swap market. A third party, in effect, steps between the bank and the borrower, accepting the obligation to pay float- ing rates while collecting a fixed rate of interest.

These swaps are often set up in terms of Eurodollar futures, whose yield on average is priced about 40 basis points above the two-year Trea- sury note's. In May, however, with the Treasury rate pushed down by Salomon, the spread zoomed close to 80 basis points—nearly a full percent- age point, raising the banks' cost of buying floating-rate payments.

And that is just one of many mar- kets dependent on the two-year-note benchmark. Other markets possibly involved are foreign currency and mortgage-backed securities.

The big banks aren't talking about any losses, but estimates of losses to banks and others in these markets could run as high as $250 million.

Federal investigators probing the Salomon scandal are trying to find out whether Salomon and other dealers routinely fixed interest rates at the auctions. Besides giving them large profits in the Treasury markets, infor- mation about manipulation of the issues could have provided some trad- ers with a decided edge through a myriad of arbitrage techniques in the other markets that are dependent on interest rates.

Did this cross-market exchange of information take place? We don't yet know. Only people with subpoena power will be able to find the answer. Certainly the whole thing is terribly complicated. Perhaps that's why the traders thought they could get away with it.

The 1980s were glorious days for packaged-goods marketers, their advertising outlets, their shareholders and their investment bankers. But the 1990s are going to be a lot less kind to the likes of P&G, Kimberly-Clark, Quaker Oats and Clorox.

The trend is not their friend

By Gretchen Morgenson

PACKAGERS of consumer goods like General Foods, H.J. Heinz, RJR Nabisco, General Mills, Procter & Gamble and Kimberly-Clark were the jewels of the 1980s. Their brand names became assets more precious than mere brick and mortar. As usual, Warren Buffett was among the first to see it coming; he made yet another fortune buying into and then selling General Foods. Cashing in on the trend, investment bankers made incredibly fat fees buying and selling brand franchises.

And since the building and maintenance of brand names require heavy advertising and promotion, the advertising, publishing and broadcast industries cashed in heavily.

What made consumer goods brands so valuable? Inflation slowed, with the result that the costs of the basic raw materials went up much more slowly than packagers could raise prices. Consumers, conditioned by heavy promotion and by habit, didn't bolt even as prices of some of their favorite soaps and cereals went up 5% or 8% a year. And so profits went up much faster than that. Heinz's earnings climbed at an average 13% annual rate in the past decade, Clorox's at 15%.

Their stockholders and owners reaped a treasure. Heinz, Hershey, Kellogg, Clorox, Kimberly-Clark and a host of other such companies showed market gains of 600% and more in a decade when the market went up only about 200%.

Out of this frenzy were born some of the biggest, costliest takeovers of the decade. In 1988 Philip Morris paid 1.3 times sales for Kraft. That same year, KKR upped the ante by paying 1.5 times sales for RJR Nabisco. Last year Clorox reportedly paid 2 times sales to buy household cleaner Pine-Sol and Combat insecticide.

Do trees grow to the sky?

Of course not. There are already signs that consumers are starting to balk at the prices on some of their favorite packaged goods and are starting to switch to house brands. The trend so far is only a trickle. But it shows signs of growing fairly rapidly.

Supermarket house brands are taking a slightly larger share of the consumer dollar, and trends in Europe and Canada suggest that this switching has a lot further to go in this country. Note this: Branded-goods producers have recently been shifting marketing dollars away from advertising and into retailers' rebates and cents-off coupons—a thinly disguised form of price-cutting.

Once consumers are hooked on price specials and brand-switching, it will be hard to keep them attached to the expensive, nationally advertised brand when the price is put up again.

Turn your eye to the bar chart on page 119. It shows operating margins, the percentages of sales that represent profits before depreciation, interest and taxes. A long list of consumer goods companies greatly widened their operating margins in the last decade. Since 1981, for instance, H.J. Heinz's margin has gone from 11.4% to 18.5%, Ralston Purina's from 9.4% to 15.7%, Sara Lee's from 7.4% to 10.4%, Clorox's from 11.2% to 18%.

The chart shows why brand-name producers did so well last decade, both at the shop counter and on Wall Street. Consumers were giving the marketers a bit more in profit on every box, bottle and can of goods they sold. Those fattening margins produced profit growth and increased the value of the brand franchises. But more than extra profit got built in; the rising earnings curve caused investors and other companies to think the curve would go on rising. Those expectations got built into prices of the brand properties.

Let's look at a specific case. Quaker Oats has a lucrative near-monopoly on the retail distribution of an ancient commodity, oatmeal. In 1980 its namesake product retailed for an average 73 cents for an 18-ounce box. Today, the box goes for $1.73. Yet over that period the wholesale price of oats went down by a third. Today's retail price is 3,000% higher than the price of the raw, unprocessed ingredient, a much wider spread than before.

That spread pays for a lot of packaging plants and brand managers and truck drivers, for ads on the mornings news, for color pages in magazines like *Newsweek* and *Time*, and for dividends to shareholders. Quaker has boosted its dividend at a 15% annual rate over the past decade. Expecting more good news, Wall Street prices Quaker Oats twice as richly in relation to operating income now as it did a decade ago *(see chart, p. 118)*.

As a group, cereal manufacturers upped their prices 7.2% a year in the 1980s. Now a large box of Post Raisin Bran or Kellogg's Apple Jacks costs close to $4.50.

Mark this: It will not take a stampede of shoppers away from name brands to house brands to cause a crimp in profit growth. At an A&P supermarket in New York City a large size of the house brand oatmeal goes for $2.49, 35% less than the Quaker Oats kind. Even a modest shift to house brands, threatening all-important volume, will cause the makers of branded goods to moderate their price increases. At some point the consumers will say, "Enough." There is plenty of evidence that many of them already have.

The private-label share of the $7 billion cereal market has more than doubled in four years, from 3.6% to 8%. Privately held Malt-O-Meal, for example, which supplies Safeway and other supermarkets with cereals, has seen its sales increase 20% in each of the past two years.

Procter & Gamble, one very smart company, is realizing how much price pressures are intensifying. Prudential Securities' Andrew Shore believes a restructuring of the company's food division is imminent. Managerial layoffs, a rarity for P&G, are expected. None too soon: Domestic sales at the company, which account for 60% of total revenues, were flat in the first half of this year. The company may also bag its time-honored and much emulated tradition of assigning a team of managers to each of its brands. Instead, managers would have responsibility for several brands.

The same price pressures are forcing the Procter & Gambles of the world to spend less of their sales budgets on network television and other forms of mass media. Consumers are inundated with choices and advertising clutter. And, in many product categories, growth is stagnant. Many consumers are also increasingly unwilling to pay up for relatively minor differences in quality or perception of quality. Research Systems Corp., an advertising testing company, says that advertising persuasiveness has fallen almost 30% among consumers in the past ten years.

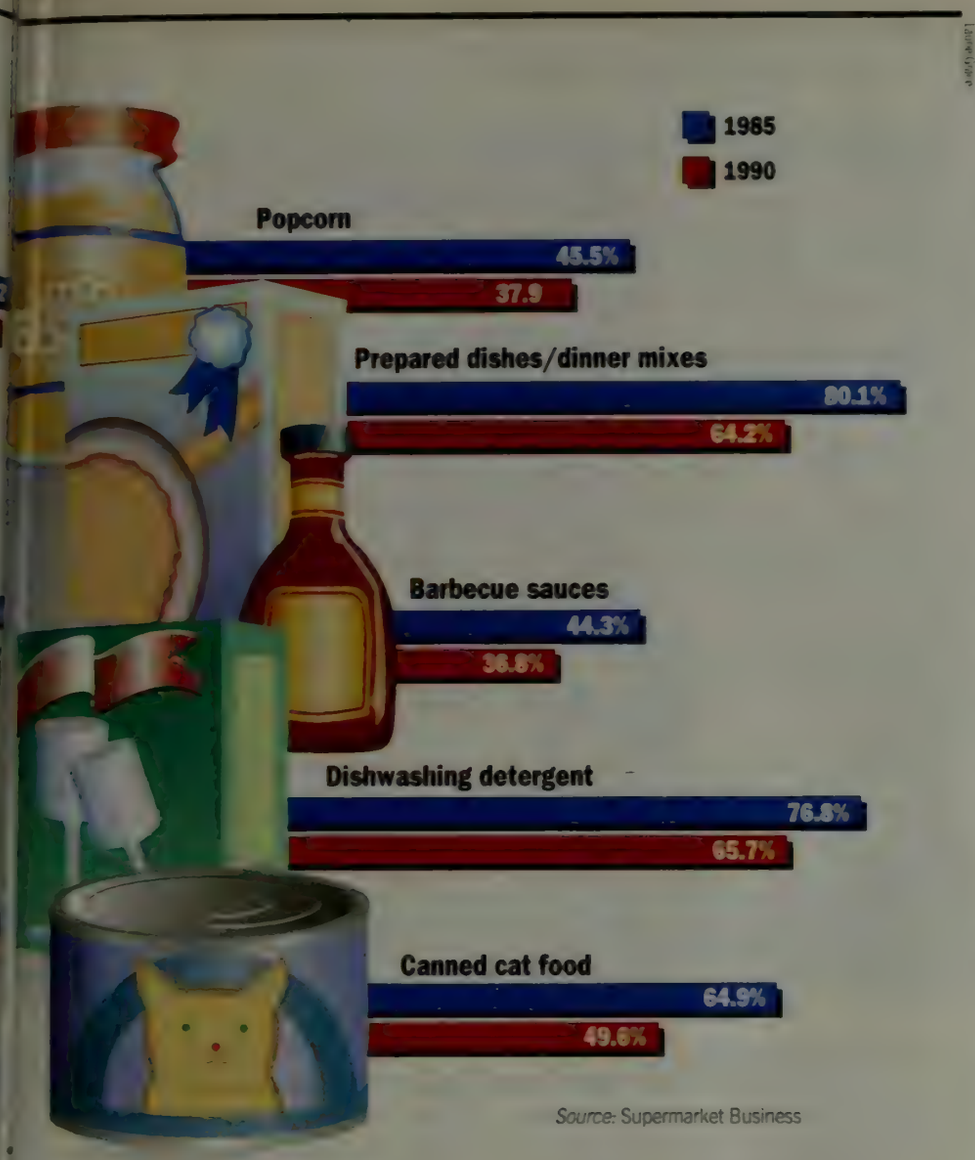
Because of price pressures, brand owners are putting more into retailer rebates and couponing, which is nothing more than a bribe for brand-switching. Four or five years ago, couponing and retailers rebates accounted for 45% to 50% of a company's marketing budget. Now such promotions are typically 75% of budget. Why? Manufacturers saw their unit growth slowing, yet they wanted to keep their plants running at capacity. If they couldn't pull their customers in with advertising, they'd push them in with coupons.

But couponing exacts a steep price: It encourages shoppers to try something new at the expense of the brand they normally use. Having made one such decision to switch brands, the consumer is more likely to switch again and again, buying whatever shampoo, orange juice or coffee he or she has a coupon for. Brand loyalty still exists in certain categories, such as toothpaste and tampons, but by no means in all.

"It's marketing guys going for short-term gains," says John Trout, president of Trout & Ries, a marketing strategy firm in Greenwich, Conn. "What they should be doing is keeping the validity of the brand in the consumer's mind. Couponing reinforces the perception that their prod-

Losses at the top

Is consumer loyalty to big-name brands as good as money in the bank? Not necessarily. Look at how much combined market share the number one, two and three brands lost between 1985 and 1990 in these categories.



Source: Supermarket Business

uct is a commodity, which is death to brands."

Ingredient labels on foods and household products contribute to the suspicion that a lot of products are interchangeable. Although deodorants still enjoy brand loyalty, when consumers see the same active ingredient, aluminum zirconium tetrachlorohydrex Gly., in Dial, Arrid, Ban and off-price alternatives, the pitch that one brand keeps you drier than the other looks mighty specious. Likewise, many low-calorie yogurts, whether manufactured by Kraft, Dannon or Safeway, contain the same low-calorie sweetener.

Consider the findings of a study in *Supermarket Business*. Since 1985 the combined market shares of the number one, two and three brands in many categories have dropped precipitously *(see chart, above)*. Picking up much of this slack are supermarkets' new-and-improved, in-house offerings, says Mary Pollack, editor of *Supermarket Strategic Alert* in New York City.

House brands have been around since the early 1900s, when John Hartford created A&P's own brand called Quaker Maid and the grocery chain began packaging its own breads, canned goods, teas and coffees. But in the Fifties and Sixties supermarkets started to skimp on quality. A classic illustration of this: A 1977 *Consumer Reports* rated A&P's Ahoy Pink dish soap one of the cheapest yet one of the worst buys of washing detergent because its suds didn't last as long.

Now the supermarkets have wised up; many house brands are at least as good as big-name brand offerings. Consumers are noticing and even beginning to act. Last year these private-label goods accounted for 18.2% of all supermarket sales, up from 17.7% in 1989, according to Private Label Manufacturers Association. This looks like a minor blip, but it looks big and scary to people who watch trends. Evidence of more explosive growth is seen in individual categories. From 1987 to 1989, for instance, the private-label share in refrigerated pizza almost doubled to 30%; in natural American cheese it climbed from 34% to 39%; and in refrigerated fruit salad it climbed from 13% to 27%.

In personal and household products, nail polish removers and private-label mouthwashes gained one and almost two market share points, respectively, last year. Private-label adult cold remedies now have 7.2% of their market, an increase of almost three points since 1987. Today more than half of all paper towels sold carry private labels, versus 36% in 1987.

Supermarkets with strong house brands are cleaning up in Europe and Canada, and their successes are being noticed in the U.S. J. Sainsbury Plc., with $13 billion in revenues the second-largest supermarket chain in the U.K., gets 50% of its grocery sales from its own brands. That's one reason it is able to net 7 cents to 8 cents on the sales dollar, 7 times the typical net margin for U.S. supermarket chains. Loblaw Cos., the Canadian supermarket chain, does big business with its house brands, the most famous of which is President's Choice. The lines will account for $1.5 billion in sales of products such as soap, cookies, soda and coffee this year, almost 20% of Loblaw's revenues. Loblaw's net margin is still only 1.2%, because of the costs of developing the house brands.

One good reason European-style chain-brand marketing is likely to increase in the U.S. is that Europeans have bought several U.S. supermarket chains and are asking why what works for them in Europe won't work in the U.S. as well. Ahold, N.V. of the Netherlands owns 90% of First National Supermarkets, Germany's Tengelmann owns 53% of A&P, Delhaize of Belgium owns 50% of Food Lion and J. Sainsbury controls Shaw's. Two months ago Shaw's announced that it was launching a new private-label

program that will stock 1,200 items within the next year. Today Shaw's sells 400 house items.

What about private-label quality? If you judge quality by popularity, consider this: David Nichol, president of Loblaw International Merchants, the product development arm of Loblaw Cos., boasts that the number one cookie in Canada today is Loblaw's President's Choice Decadent Chocolate Chip Cookie. It is made with butter and contains 39% chocolate chips by weight, compared with the vegetable fat and 25% chocolate chips that go into Nabisco's Chips Ahoy brand, says Nichol. Yet the four-year-old Decadent sells for 10% to 20% less than the better-known brand. In four short years it has snared 14% of the market, mostly from Nabisco; yet it's sold in only 17% of the country's stores. Nabisco's offerings are sold in over 90% of Canadian stores.

Powerful RJR Nabisco isn't the only one losing market share to house brands in Canada. So are the presumed untouchables, Coke and Pepsi. Loblaw's President's Choice cola, produced by the Cott Corp. of Quebec, has grabbed over 50% of the chain's canned cola sales, drubbing all competitors. The Loblaw brand retails for $4 to $5 a case, versus $5 to $7 for Coke or Pepsi.

To beat pros like Coke or Pepsi at their own game is an amazing feat for Cott and an object lesson for those who believe that brand loyalty is guaranteed. Publicly traded Cott says it has captured close to a 20% market share in cola across Ontario, up from 3% two years ago. Chairman Gerald Pencer predicts that Cott could take in $130 million in revenues this year, a 300% increase since 1989. Pencer has only begun shipping soft drinks to the U.S., but results are promising. He convinced the family-owned Wegmans chain in Rochester, N.Y. to stock Cott as a house brand under the name WPOP.

Don't think the growth in private-label products is simply a result of the recession. A 1990 study commissioned by the ad agency DDB Needham Worldwide found that 62% of packaged-goods consumers said they buy only well-known brands, down from 77% in 1975.

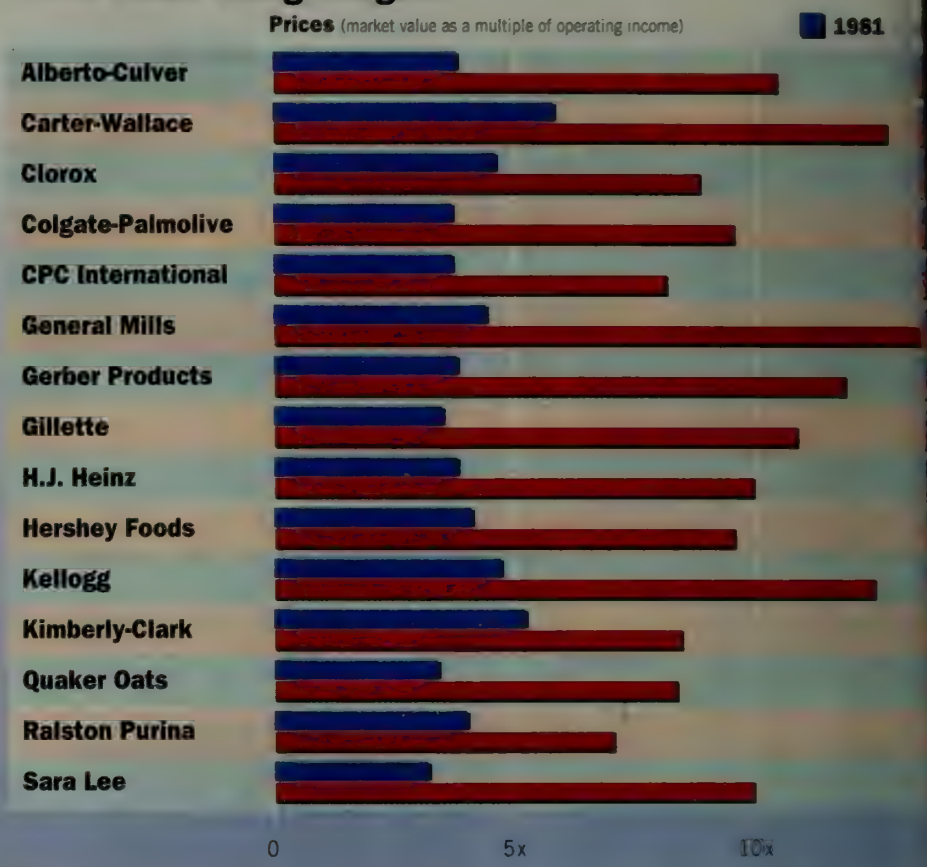
To hold down the tremendous cost of introducing new branded products, manufacturers have relied increasingly on line extensions: using the name of a successful brand on a new, related product, such as Maxwell House on microwavable coffee. Marketing Intelligence Service Ltd., a marketing research firm, reports that since 1987 almost 70% of the 24,000 new products introduced were line extensions. The problem here is that this can cause a blurring of brand identity and a confusing proliferation of brands. There are simply too many offerings out there: 1,300 shampoos, 200 cereals, over 250 soft drinks. "There is no economic need for many of these brands," says Prudential Securities' Andrew Shore. "Too many are on life support, kept alive by brand managers who want to keep their jobs." Shore predicts a huge industry-wide consolidation. In August P&G said its 11-year-old Puritan cooking oil brand will also sport the Crisco label later this year.

In joining the Puritan and Crisco products, P&G may be sensing the trend, understanding that the proliferation of brands and line extensions is making it harder to get and keep consumers' attention. Don't be surprised if, a while later, the Puritan name disappears altogether.

Beyond all this, a shift in consumer psychology is undermining the appeal of many mass brands. In the recent past, the American consumer wanted homogeneity, says Christopher Snell of Snell Associates, a Mill Valley, Calif.-based San Francisco marketing consultant. Shoppers felt safest buying the same products their neighbors bought.

Now, says Snell: "The gold standard has shifted to specialty products. People want to differentiate themselves from others. They don't want homogeneity anymore." This marketing trend, long obvious to automobile manufacturers, has spread now to disposable household items. It has opened the door to smallish, niche competitors selling gourmet, "health" or international foods—hotter and spicier barbeque and spaghetti sauces, flavored cooking oils, exotic vinegars, cheeses and breads. Consider gourmet coffee. In 1980 specialty coffees had only 2% of the

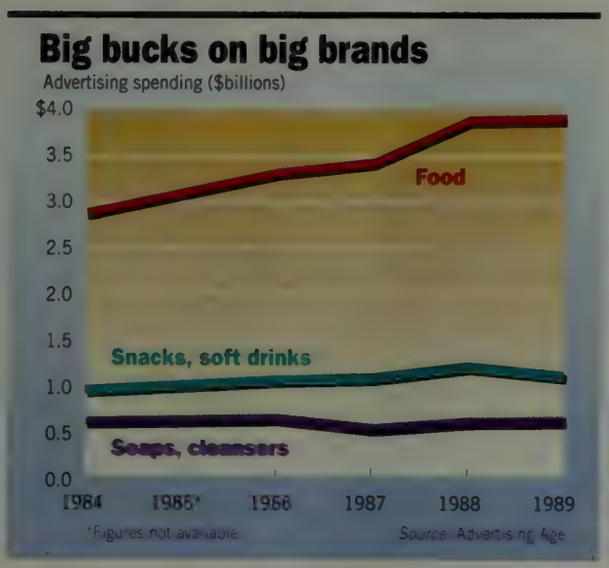
Love those rising margins



Source: Value Line

A. Christie/Forbes

Ten years ago, producers of branded food and household products were on the threshold of an earnings explosion—as the fattening operating margins (above) attest. Yet on Wall Street the valuations—total value of common stock plus debt outstanding, divided by operating income (left)—were low. Now, the future looks dimmer, since margins can't keep widening forever. Yet valuations are much higher.



$6.5 billion U.S. market. They now have 22%.

Every major trend and every shift in a trend produces winners and losers. Who wins, who loses as brand loyalties fade? It seems clear that the biggest winners could be supermarket chains which recognize the value of pushing private labels. Early on in any program, however, their expenses will be high, so rewards won't be immediate. Big publicly traded companies already in this game include Hannaford Bros., Vons Cos., Safeway, Kroger and possibly A&P. Giant Food, a $3.3 billion (sales) Washington, D.C. chain, has its own bakery, ice-cream plant, dairy and soda-bottling line; it nets an extraordinary 3.6 cents on the sales dollar. Other obvious beneficiaries of the increasing interest in supermarket house brands: manufacturers of private-label goods. Public companies who are strong in this area include Cott (traded on the Toronto and Montreal stock exchanges), Grow Group, Heinz and Ralston Purina.

Manufacturers whose brands are numbers three and four in their categories are the vulnerable ones. Traditional big-name manufacturers whose products are numbers one and two will certainly survive any brand shakeout. This list would beyond a shadow of doubt include Coca-Cola, Pepsi, Kellogg, Campbell Soup, Philip Morris, RJR Nabisco, General Mills, Procter & Gamble, Tambrands and Gillette. These manufacturers could gain almost as much from lesser brands that will be abandoned as they lose to supermarket brands. But they probably will hold their volumes only at the expense of lower markups. The days of operating profit margins that climb year in, year out, are probably over.

Analysts talk reassuringly of foreign profits making up for any loss in domestic revenues, but since most of these companies do a majority of sales domestically, it's not clear that foreign gains can pick up the slack.

None of this bodes well for media companies that depend heavily on packaged-goods advertising. And investors would be smart to wonder whether packaged-goods stocks will continue to justify their current lofty price/earnings ratios. Even a modest shift to house brands and to price competition could cause a plateau in the earnings growth curve of packaged-goods companies. According to *Value Line*, P/E ratios for food stocks like Kellogg, ConAgra, General Mills and Campbell Soup check in above 20, a hefty premium to *Value Line's* market multiple of 15.4. These fat prices are Wall Street's reward for the past earnings gains of these companies. But if earnings growth shifts back to the slower pace enjoyed by the economy as a whole, there is no reason for earnings multiples not to shrink back to market levels. That would erase tens of billions of dollars from market valuations in this sector.

National brand names are not going to fade away. But they will no longer produce automatic profit growth. The trend is early, but smart business people don't wait until a trend is obvious to act on it. ■

Municipal bond fund manager Kenneth McAlley is an unusually active—and successful—trader in a buy-and-hold market.

In volatility, opportunity

By Katarzyna Wandycz

SHOULD TAX-EXEMPT bonds be locked away in the safe-deposit box until they mature? Kenneth J. McAlley doesn't think so. McAlley trades tax-exempts as if they were stocks, and has compiled an enviable record doing so.

McAlley, 46, executive vice president of U.S. Trust Co. of New York, manages the $46 million (net assets) UST Master Long-Term Tax-Exempt Fund; it boasts the best five-year total return among all long-term tax-exempt funds. For the five years ended June 30, 1991 it returned 11% annually, according to Lipper Analytical Services, with as much as a third of the fund's return coming from capital gains. Even if you adjust McAlley's returns for federal taxes on the capital gains (which Lipper doesn't do), the fund still comes in first, beating the average tax-exempt fund by 2% in annual total return, according to John Rekenthaler, editor of Chicago-based Morningstar's *Mutual Fund Values.*

McAlley earns these impressive returns by moving aggressively out of longer-maturity bonds when he thinks interest rates are about to rise. When he thinks rates will fall, he trades out of his shorter-maturity bonds and back into the longer end of the market. "You can either be right or wrong," says McAlley, "but you have to be a decision maker."

One very profitable decision was staying out of long bonds as rates rose during most of 1987. By the time crash day, Oct. 19, rolled around, interest rates on long-term tax-free bonds were almost three percentage points higher than in January—and McAlley's fund was 75% in highly liquid short-term issues. Out went the short issues, in came the long-dated bonds, which shot up in value as the Fed slashed rates and the markets recovered from the crash. That year, UST Master returned 9.6%, while the average long-term muni fund lost 1%.

Jeffrey Vock

U.S. Trust's Kenneth McAlley
"You have to be a decision maker."

When McAlley sells longer-term bonds, he parks the proceeds in shorter-term, less volatile issues. He gives up some yield, of course, but he is careful not to give up liquidity. He views the shorter-maturity positions as money that is parked until a great buying opportunity comes along.

What's his take on the market now? Various price indexes have convinced McAlley that the economy is still anemic and that interest rates may continue to fall. In August he began moving aggressively into longer-term issues, and he continues to do so.

In selecting longer-term bonds, he looks for two main attributes: quality—indicated by credit ratings of at least AA—and liquidity. Only after these conditions are met does he look for yield. Why? Because a lower-grade, BBB-rated tax-exempt issue will typically yield just 50 basis points over an AA-rated issue. And if interest rates rise or credit quality deteriorates, the bonds with the lower ratings not only fall more in price but they also lose much of their liquidity—a potential disaster for a trader like McAlley.

Right now McAlley is buying 15-, 20-, and 30-year AA-rated bonds from states with high taxes and strong demand from investors; he mentions Florida and Hawaii. He has also recently started to buy general-obligation bonds of what he perceives as strong credit states—these include AA-rated Washington, AA+-rated Minnesota, AA-rated Wisconsin and AAA-rated California. He believes some strong-credit states' general-obligation bonds have been unduly punished by the general concerns over deteriorating credit quality. Acting on this belief, he bought $4 million of Washington State 6¼s of 2009 in August. The bonds yield 6.8% to maturity—quite attractive in comparison to the 8.1% that Treasurys maturing in 2009 currently pay.

In the first quarter of this year, McAlley also loaded up on strong New York State credits, like the AA-rated Municipal Assistance Corp. of New York City (yield to maturity in 2007, 6.8%) and the A+-rated Triboro Bridge & Tunnel Authority (yield to maturity in 2021, 7%). Demand for New York, California and other high-income-tax states' issues will probably increase as state and local politicians keep raising income taxes and/or eliminating deductions.

Some credit market analysts believe that interest rates, intensely volatile during the past decade, will soon begin to stabilize. That would tend to reduce the volatility that has enabled McAlley to add capital gains to his portfolio's coupon yields.

If rates do stabilize, McAlley says he may change his trading strategy and look for more yield in lower-grade tax-exempt issues. But he thinks the continuing globalization of the credit markets and an increasing supply of bonds will keep interest rates and bond prices fairly chaotic. "I like volatility," says McAlley. "It creates opportunity."

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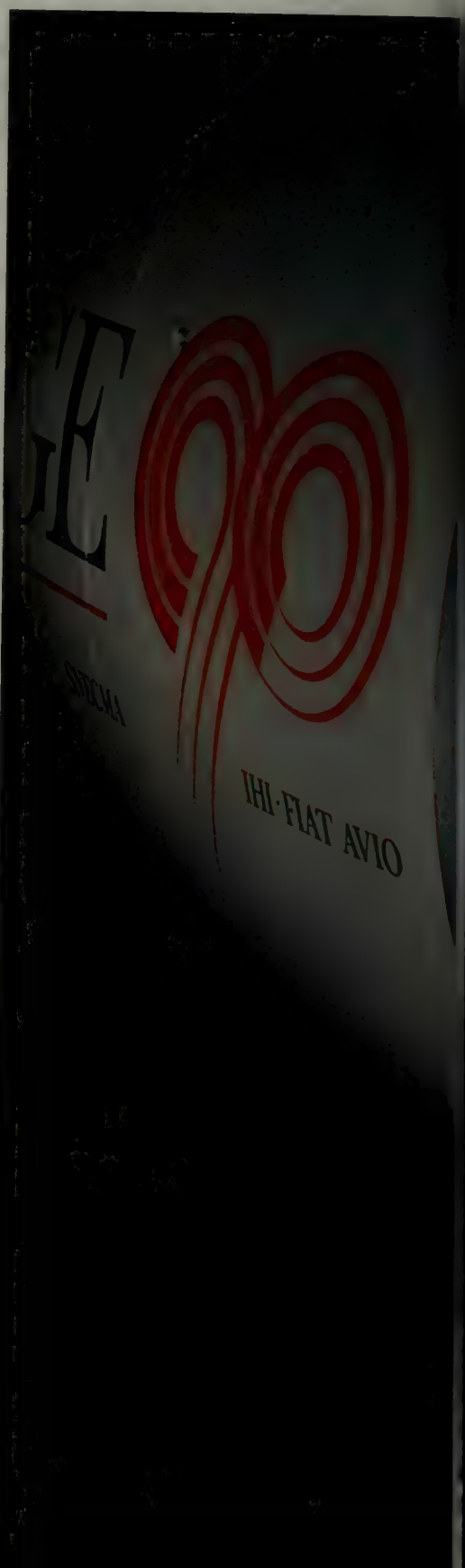


outdated

As many states' finances crumble, new market-oriented think tanks at the statehouse level are challenging the old vested interests.

Hidden persuaders

By Janet Novack

AS DEBATE raged this summer over Connecticut Governor Lowell Weicker's proposal for a state income tax, radio talk show hosts and callers repeatedly cited a study that found evidence that public spending growth usually accelerates after a state adopts an income tax. By contrast, the Weicker forces insist the income tax is merely a fairer way to balance the budget and not a means to increase state spending, which grew rapidly in the 1980s.

The study was produced by the previously obscure Hartford-based Yankee Institute for Public Policy Studies, one of many pro-free-enterprise think tanks that have sprung up at the state level since 1987. One or more such groups now operate in nearly 30 states, says John Cooper, chairman of the Madison Group, a confederation of free-market think tanks.

Says Don Eberly, president of Pennsylvania's promarket Commonwealth Foundation for Public Policy Alternatives: "We're a small answer to the cacophony of voices coming from special interests, particularly labor interests, in the state capital."

With many voters unwilling to tax themselves further to pay for schools that don't educate and public servants who don't serve, there is plenty to talk about. The new groups are producing reports that push for privatization and the revamping or cutting of government services. Their reports generally oppose new taxes and advocate parental school choice. The institutes fund their activities through donations from corporations, foundations and individuals. Some hire outside academics to conduct their research.

Wise in the ways of public relations, the groups take a leaf from the conservative Heritage Foundation by aggressively marketing their ideas to politicians and the public through briefing papers, newspaper columns, radio and TV spots and conferences.

In June the Washington Institute for Policy Studies sent a pamphlet attacking wasteful state spending (including legislators' perks) to 20,000 citizens known to have contributed to state legislators' campaigns. The leaflet included the lawmakers' home phone numbers. "You have to be willing to do things that will be very unpopular if you want change," says Institute President John Carlson.

In Michigan, by contrast, the Mackinac Center for Public Policy now plays something of an insider's role. Conservative Republican John Engler helped start the Center in 1987. After he was elected Michigan's governor last fall, Engler appointed several people associated with Mackinac to state jobs. Engler believes think tanks can fill a new-ideas void in the states: "There's a disillusionment with Washington's ability to solve the problems. The real action is going to be at the state level."

Massachusetts' Pioneer Institute for Public Policy Research has also ridden a new administration into power. During the late 1980s, Pioneer Institute studies raised serious questions about the wisdom of then Governor Michael Dukakis' mandated health insurance law and the effectiveness of his much-touted employment and training program for welfare recipients. After he was elected last fall, Dukakis' successor, Republican William Weld, named Pioneer codirector Charles Baker to be his undersecretary for health. Weld has also ordered state bureaucrats to cooperate with Pioneer Institute-sponsored projects looking into everything from privatizing Logan Airport to using vouchers to provide services to the mentally retarded.

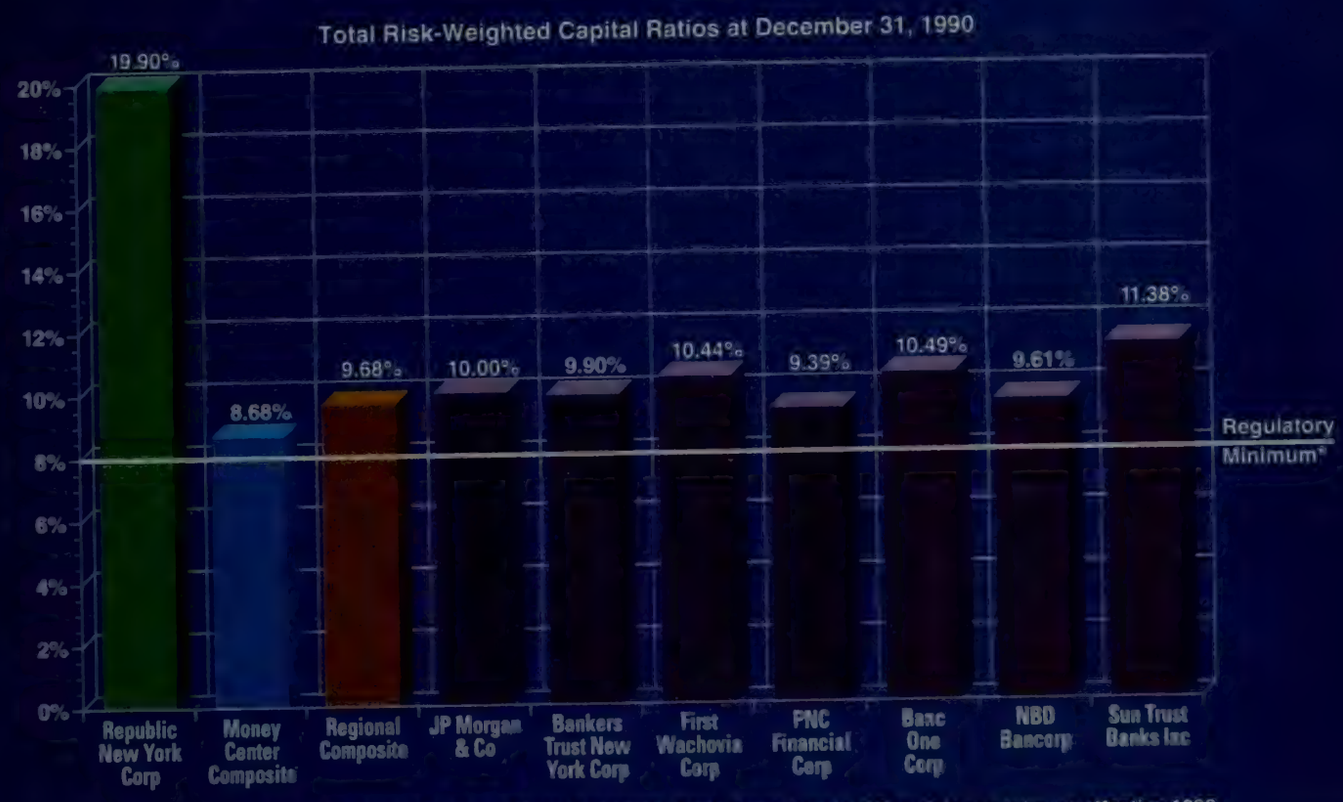
In state capitals and city halls throughout the nation, the spenders are still in control, but opposition to them is growing. Says Don Eberly, of Pennsylvania's Commonwealth Foundation: "By no means will the powerful interest groups—the teachers, the public sector workers and the organizations that derive benefit from government spending—be driven out by our presence." Still, the pro-spenders now face a potentially persuasive new opponent.

David Fields

Sam Ruggiero

ABOVE:
Charles Baker
LEFT:
Don Eberly
Answering union lobbyists.

Even today there are banks that can talk about financial strength.



Source: Salomon Brothers Stock Research–Bank Stock Weekly. *Regulatory minimum effective 1992

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According to Salomon Brothers' *Bank Annual: 1991 Edition*, Republic was number one among U.S. multinational banks. Salomon Brothers said, "Republic NY Corp. ascended the throne in this category for the first time since 1987, driven in large part by the company's superior results in the asset quality department."

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Even in these uncertain economic times, Republic New York more than meets the test for financial strength and stability. And remains, says Oppenheimer & Co. Inc., "one of the most secure banks, if not the most secure bank in the U.S." With a balance sheet, reports Bear Stearns, that is "the strongest of any major bank in the U.S." "Based on safety alone," notes Shearson Lehman Brothers Inc., "no bank can touch Republic New York."

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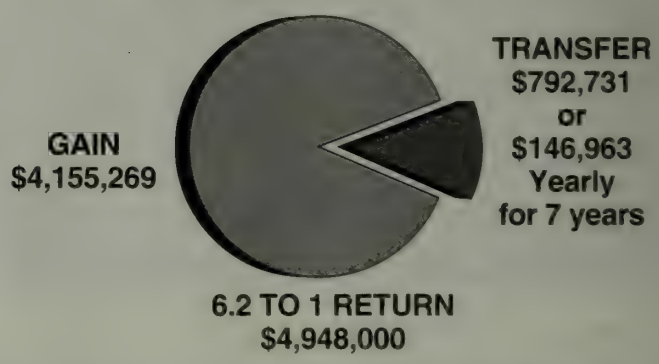

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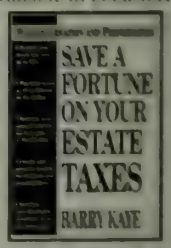

"Much useful advice from a pro."– *Forbes*

Not so long ago Amerada Hess and its boss both seemed on their last legs. But look at them both today.

It's not over until it's over

By Howard Rudnitsky

Amerada Hess rig being towed to the Scott Field

Hess' share of the take should be about $1 billion.

ONLY A FEW years back, New York-based Amerada Hess was vulnerable to a takeover. In 1986 its boss and largest shareholder, Leon Hess, was 72, and the company lost $219 million on $4 billion in sales that year and was forced to eliminate its $1.10 a share dividend. Its market value plunged from a high of nearly $3 billion in 1985 to $1.4 billion as its stock dropped from 34 to 16½. T. Boone Pickens was rumored to have bought a sizable Amerada block before selling out. The company also beat off a shareholder proposal to break it up into three separate entities.

Chairman Leon Hess, who had built the company from a few fuel delivery trucks into an $8 billion (revenues) integrated oil company, was not about to see his whole life's work dismantled.

The danger has passed. Amerada shares are now at 57, about five times estimated 1991 cash flow. The 77-year-old Leon Hess, who controls some 15% of the 81 million shares, is still in full command. While many oil companies were showing modest gains in oil and gas production in 1991's first half, Amerada's production was rising by 19%.

This follows sharp gains in sales and earnings for Amerada in 1989 and 1990. Further gains in oil and gas production are ensured by Amerada's 35%-owned Scott Field, off the coast of the U.K., which will start producing heavily in early 1994.

At the Scott Field, which Amerada found in 1987, Hess will have to spend $800 million to bring the field into production, but his share of the take should be around 200 million barrels (worth about $1 billion at an assumed $5 a barrel).

In addition to other North Sea production and a 10% interest in the large Rabi Kounga oil field in Gabon (West Africa), Amerada has acquired sizable gas and oil production in the Gulf of Mexico off Texas and Louisiana. In 1989 Amerada bought the offshore production of Transco Energy Co.—518 billion cubic feet of gas reserves and 12 million barrels of oil—for $866 million; it has since added 100 billion cubic feet of natural gas to the Transco reserves.

Amerada's St. Croix, V.I. refinery has long been an albatross, producing mostly thick, low-value residual fuel oil for boilers, which has been in slack demand. The refinery was hard hit by the devastating Hurricane Hugo, which swamped the Virgin Islands in September 1989, knocking out production; it took a year to completely rebuild the facility. But St. Croix may not be an albatross much longer, and Leon Hess is spending over $800 million to upgrade it against the day when stringent environmental standards make it almost impossible to build new refineries to meet a growing need for oil products.

By late 1993 the company will have completed a new 75,000-barrel-a-day fluid catalytic cracking facility, enabling the refinery to convert most of the residual fuel into more profitable motor gasoline. Amerada will also construct at St. Croix a facility to produce high-octane, cleaner-burning gasolines to meet stricter federal regulations in 1995.

Smith Barney's Michael Young estimates that Amerada's cash flow this year will be about $12 a share, up from $7.15 in 1988. By 1995 that could rise to $23 a share. If Young is correct about that, Amerada's current price of $57 a share could turn out to be very cheap.

After Leon Hess, what? In the second half of this decade President and Chief Operating Officer Robert Wright, now 66, will be in his 70s. That will probably leave the top job wide open for Leon's son, John Hess, 37, now senior executive vice president in charge of North American exploration and production.

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"AFTER AN hour in the WATER we all get the BENDS."

ROBERT SIBLE, *Torrance, California*

WHAT, NO THUMPING DISCO BEAT? Not a muscle shirt or skimpy leotard in sight? What sort of exercise class is this?

Well, it's called "Twinges in the Hinges," a class devoted to improving the flexibility of arthritis sufferers. And it's putting a spring into many a step thanks to the Arthritis Foundation of Southern California and the YMCA who, together, developed this program.

At 7:30 AM sharp, four mornings a week, a sprightly 72-year-old Peggy Snow leads her class into the Torrance-South Bay YMCA pool for an hour's "watercise."

An arthritis sufferer herself, she found the program so beneficial she volunteered to teach it to others.

And in 5 years, Peggy's never missed a class.

"Some of my regulars, like Robert here, have been coming for years. We really care for and support each other. We'd bend over backwards for one another, if we could," she laughs.

"Twinges in the Hinges" is just one of many health and fitness programs the YMCA provides for the community.

It also offers parent-child programs that strengthen families. Youth and teen programs that build self-esteem. As well as being the largest provider of child care in the nation.

But are we talking about the same YMCA, the gathering point for happy campers and many a tireless basketballer, we hear you ask?

None other.

However, what's not widely known is that the YMCA has for many years embraced all comers regardless of age, sex (almost half its members are female), religion or ethnic origin.

"Aren't we all one family?" asks Dave Cason, Torrance's director. "You bet. The way we see it, we're the Family Y, and we've a couple of hundred million or so people to reach out and care for."

It's this concept of community that prompted Toyota to help fund the construction of the teaching pool back in 1985. And to continue our support of the exciting new projects underway this year.

But why the Y?

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INVESTING IN THE INDIVIDUAL

Business horizons in South Africa have opened as wide as the veldt with the collapse of apartheid. Nobody stands to gain as much as Anglo American.

Harry Oppenheimer, African empire builder, is smiling again

By Peter Fuhrman

Ian Berry/Magnum

Harry Oppenheimer with son Nicky
The last of a great generation of African empire builders.

IN ANGOLA, Cuba's Marxist mercenaries have gone sullenly home and are being replaced by capitalist management, there to organize production of what may be the last great source of subterranean diamonds in Africa. In Namibia, which just 18 months ago was convulsed by civil war, three new mines were opened by foreign businesses blazing an entrepreneurial trail.

Black African countries that routinely accused capitalist employers of "racist oppression" and "colonial exploitation" are hastily rolling out the welcome mat. "Now there will be opportunities again to do what we set out to do 60 years ago when I started in business, to become very active across all of southern Africa, " says Harry Oppenheimer.

Oppenheimer, now 83, retired in 1982 after 25 years as chairman of the mighty gold and minerals holding company Anglo American Corporation. Together with its no less powerful sister firm, De Beers, which rules over the world's diamond business, these intertwined conglomerates lord it over the African economic scene; in embattled South Africa alone their activities account for nearly 10% of the GNP. But their horizons have been narrowed by socialist experimenters and racial hatreds. The dignified patriarch becomes animated as he talks about how the settlement of political differences and the collapse of statism promise to make Africa's future as bright as its present is bleak.

The chairmanship of Anglo Ameri-

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can has passed to Harry's former personal assistant, Julian Ogilvie Thompson. Son Nicholas Oppenheimer, 46, is being groomed for the top job. (Today he heads up De Beers' diamond sales operation in London.) Harry, however, remains the guiding light of the company, even though he holds no formal managerial title and his family owns just 8% of the equity.

Harry Oppenheimer is the last of a great generation of African empire builders. His days of grandeur and territorial aggrandizement, however, had wound down in the 1960s, when the tightening of apartheid in South Africa and the growing virulence of Afrikaner nationalism led to threats to nationalize his profitable mines. That was followed by the steady withdrawal of capital by American and European investors. Elsewhere in Africa, newly independent nations lurched to the left, nationalized existing mines or taxed others to death.

Most of black Africa stagnated or worse, while white-ruled South Africa became an outcast among nations.

The worst is over. Anglo American is clambering from its bunker. As the southern part of the continent revives economically, the Oppenheimer group of companies will be presented with tremendous opportunities. Anglo, the gold and diamond mining company established by Harry's father, Ernest, became under Harry a sprawling industrial holding company. It now controls over 1,300 businesses, ranging from breweries and vineyards to auto assembly plants, travel agencies and the world's largest platinum mine. Anglo American and De Beers have a combined market capitalization of $21 billion and each is the other's largest shareholder.

Harry Oppenheimer points out that he was often an unwilling conglomerator. Exchange controls and South Africa's political isolation left the company with little choice but to reinvest excess cash flow at home. Expanding in South Africa was a key protection against nationalization of mines and minerals.

But whether the acquisitions were accidental or not, Oppenheimer is now happy with many of his new businesses, especially the steel and paper businesses started from scratch in the 1960s. There are plans to expand production to enter export markets formerly closed off by international sanctions.

Because it has capital and managerial knowhow in abundance, both ingredients in short supply in Africa, Oppenheimer is convinced that Anglo American can play the key role in lifting Africa out of the quicksand of poverty, charity and bureaucratism. Mineral resources, untapped or unskillfully managed, are enormous.

Oppenheimer sees the De Beers diamond mines in South Africa's northern neighbor, Botswana, as the prototype for his companies' future actions. In 1982 the company opened a mine that has exceeded its fondest hopes. The Jwaneng mine is now the largest producer, by value, of gem diamonds in the Western World. Dividends from the mine and from the country's 2.5% shareholding in De Beers provide Botswana with over 60% of its national income. Botswana enjoys the second-highest per capita income in black Africa. Diamond production there is now being boosted by one-third.

For all the strings added to Anglo's bow during the closed period under apartheid, its main strengths lie just

Ian Berry/Magnum

Julian Ogilvie Thompson **"Nothing can or will render diamonds obsolete."**

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ABOVE:
Gold mining
LEFT:
Mining diamonds
While gold mining ails, the diamond mines remain among the most consistently profitable operating businesses in the world.

where they always have: in diamonds and gold. The two are faring rather differently.

De Beers' diamond mines, especially Jwaneng, are among the most consistently profitable operating businesses in the world. As a rule of thumb, De Beers expects its new diamond mines to earn a 300% return on capital over a ten-year life. Later this year, for example, De Beers will open its first major, new South African diamond mine in over a generation. The Venetia mine, which cost $400 million in upfront investment and should yield diamonds for no less than 20 years, is expected to unearth in its first year diamonds worth $250 million on the wholesale market, with operating costs of under $25 million.

These margins are a consequence of De Beers' talent for preserving its cartel. In the last year, all major diamond producers, including the Soviet Union and Australia, renewed their deals to sell predominantly through De Beers, which takes a 10% commission on all sales. De Beers' dividends are the largest contributor to Anglo American's consolidated profits—$100 million of last year's total profits of $490 million. With hardly a bump, De Beers is weathering the economic recession. Boosted by $157 million in advertising, sales this year should match the $4.1 billion achieved last year. "We're fortunate to have a product that is unaffected by fashion and that nothing can or will render obsolete," says Anglo and De Beers Chairman Julian Ogilvie Thompson.

The De Beers cartel survives because it is a relatively small market in which centrally set prices hold. Total wholesale gem diamond sales this year will run to about 55 million carats—11 tons of stones—worth under $5 billion. And much of that consists of shards of middling quality. These specks come mainly from Australia's Argyle mine. Since Argyle began producing in the mid-1980s, total diamond sales have doubled.

These small diamonds are cut in India and sold cheap. It's the stones over 1 carat that pay. These make up fewer than 15% of the total sold but account for over 50% of the total turnover of De Beers' London selling operation. "In some extraordinary way, where God provides diamonds in abundance, He provides them in very low qualities," explains Harry Oppenheimer. He has kept his De Beers board seat, he says, out of a love for the business, but also to retain a strong Oppenheimer family connection, important in a wholesale trade that still runs on a mixture of trust and old family ties.

By contrast, gold mining, once Anglo's kitty, has hit tough times. Anglo is still the Western World's largest producer, mining 11,000 tons of gold in the last 60 years—10% of all the known gold in the world. Last year's output of 250 tons earned Anglo $3.1 billion in revenues. But the profitability of its gold mines, measured by their operating margins before tax and capital spending, hit an

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alltime low of 21%. Gold's contribution to Anglo's earnings fell to just 16% of the total, down from a historic average of over 40%.

Part of the problem is that the gold price stays below $400 an ounce, even during a world crisis like a Soviet coup. One solution is better control of mining costs, which have been rising at Anglo by over 15% a year compounded since 1975. Its cost of production is now over $300 an ounce, at least 20% above the average production cost of U.S. gold mines.

The reasons become graphic 2 miles below ground at Anglo's Western Deep Levels mine. Mining there is pretty crude: Detonate a few sticks of dynamite and then send men down with hand drills to chip away at the stone. It's a bit like felling an acre of forest to recover a single branch.

Anglo plans to mechanize Western Deep Levels and other deep mines. That will reduce the tonnage of waste stone lifted to the surface. Expensive underground train lines are being replaced in newer shafts by fast, trackless hauling equipment.

But Anglo thinks it can also do in gold at least some of what De Beers has done in diamonds: Boost profitability by stimulating consumer sales. Investors, save for a few die-hard gold bugs, have steered clear of the metal for five straight years. When all else fails, try the hard sell. Anglo is asking other major gold producers to join it in a major promotion to push sales of high-karat gold jewelry. Gold jewelry sales tripled in the 1980s. And this year almost 2,000 tons, or 95% of the world's new gold production, will flood into the jewelry market.

The idea of aggressively marketing gold is something of a damascene conversion for Anglo American. "We'd fallen into that fault of people who run centrally planned economies: If you produce it, people will want it," explains Clem Sunter, who recently took over management of Anglo American's gold operations. Shorn of mystery, gold is just the world's oldest luxury product.

It would take a sustained gold price of over $400 an ounce before Anglo rushed to launch development of what could be its largest gold deposit ever, Potchefstroom Gap. Located west of Johannesburg in the 150-mile arc of the Witwatersrand Basin, Potchefstroom Gap is a proven deposit of 8,000 tons of gold, but much of it is in hard quartzite rock over 2.5 miles below the surface, where the rock face is about 130 degrees Fahrenheit. To mine the gold, Anglo will have to pump down cooling slush, pushing likely production costs above $350 per ounce in today's money.

It might cost up to $1.5 billion to bring such a mine into operation. That kind of money has been tough to raise, not only because of low gold prices, but also because U.S. sanctions blacklisted South African stocks. As things now stand, shares in Anglo American's gold mines, based on their price/earnings ratio and projected life of the mines, are about half the price of shares in U.S. and Canadian mines.

As South Africa is reintegrated into the world economy, this could change. South African gold shares might move closer to the level of gold shares elsewhere, making it easier to raise money for new South African deep mines across the Witwatersrand Basin, where up to 40,000 tons of metal lie buried.

But will South Africa's reintegration abroad be achieved without terrifying disorder at home? South Africa is, of course, in the midst of an upheaval which rivals that in the Soviet Union. As was demonstrated in Soviet Russia, the looming threat is one of reckless political violence. South Africa, too, faces potential radicalism during the transition to democracy.

Soon after his release from prison last year, Nelson Mandela began floating the idea that a future black majority government might seek to nationalize Anglo American's gold mines. A year on, wise counsel seems to be prevailing. Oppenheimer recalls a conversation with Mandela, who told him: "There are economic and political injustices that must be righted, and how can we do this if we don't nationalize the great wealth of the mines and use it for the people?"

"I agree there have been injustices," Oppenheimer responded, "but if you do nationalize the mines do you intend to pay for them or just take them?"

"We are very respectable people and will, of course, pay for them."

"But if you pay a fair price, how will you then end up with any more money to spend righting those injustices than when you began?"

The logic is self-evident, but logic

Sir Ernest Oppenheimer in 1954

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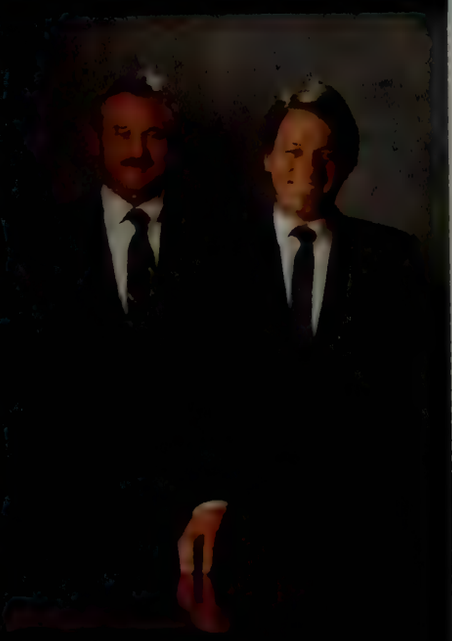

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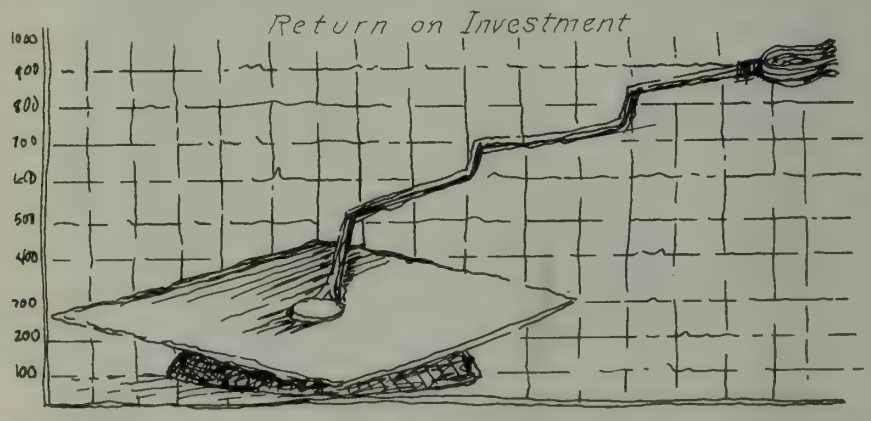

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doesn't always rule in politics. In politically immature Africa it tends to rule even less often than elsewhere in the world.

Oppenheimer thinks the answer lies not in persuasion but in encouraging the black community to build its stake in the capitalist system. Anglo itself is expanding startup loans to small mine-services businesses, selling off its employee shops and housing on the mines and distributing shares to its black work force.

South Africa is in the midst of an upheaval that rivals that in the Soviet Union. The looming threat is one of sudden political violence and potentially of radicalism during South Africa's transition to democracy.

Winning over the opposition by giving them a piece of the action is a technique Oppenheimer has succeeded with before. Some 25 years ago he sold the controlling stake in South Africa's second-largest mining group, Gencor, to Afrikaner businessmen. Until then, Afrikaners had lacked any real presence in the country's industrial economy. That Afrikaner ownership spread, and with it a recognition that apartheid laws stifled economic growth by depriving a majority of a decent education and a living wage.

Oppenheimer thinks the blacks can be co-opted to capitalism and to a harmonious multiracial society by similar means. There is, he says, no firm guarantee this will happen. It is not inconceivable that violence among rival contestants to power in the black community will continue to mar the transition. It is not inconceivable, too, that the white working class will resist with violence any threat to its privileged position. Nevertheless, Harry Oppenheimer is optimistic in a way he hasn't been for years.

"I am immensely pleased with what is happening," Oppenheimer reflects, "and my ambition is to live long enough now to see a fully civilized South Africa." To him "civilized" means free of barbarisms like apartheid and Marxism. ■

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Randy Samelson sold wealthy investors on Stoneridge Resources. His ideas were fine but his execution terrible.

A slight miscalculation

By Seth Lubove

RANDON SAMELSON is nothing if not precocious. As a high school sophomore in suburban Detroit, he managed a stock fund for his teachers. By the time he was in his early 30s, the lanky son of a builder was constructing office parks in Detroit and environs, while at the same time dabbling in commodities and stocks.

Sipa-Fame

Samelson, now 42, moved into the big time in the mid-Eighties, when he got backing from entrepreneur George Valassis. Valassis made his fortune founding GFV Communications, the nation's largest publisher of newspaper coupon inserts, and then selling it to Australian Kerry Packer in 1986 for an estimated $300 million.

Looking for ways to put his huge nest egg to work, Valassis hit on Samelson. "I chose this relationship very carefully," Valassis told *Crain's Detroit Business* in 1987. Together they founded Stoneridge Resources as a vehicle for buying companies that owned potentially valuable real estate. Valassis convinced wealthy friends, including David Thomas, chairman of Wendy's, and Michael Ilitch, founder of the Little Caesars pizza chain, to put in with Samelson.

Alas. The once promising partnership has ended in acrimony and lawsuits. Samelson resigned as Stoneridge's chairman last month under pressure from the board. Stoneridge's New York Stock Exchange-traded shares, which hit a high of 12¼ in 1987, now languish at around 4½.

Camera-shy former Stoneridge Resources Chairman Randon Samelson. Dodging photographers (top) and as a precocious high school investment wiz

What happened to the onetime boy genius and his well-heeled backers?

What happened to the onetime bo genius and his well-heeled backers?

It's a sad story. In 1985 Samelson' group bought 9% of New York Stoc Exchange-listed Orange-co, a mon eylosing Florida citrus producer, an waged a successful proxy fight fo control of the board. Samelson the had Orange-co in 1986 buy a control ling interest in American Agrono mics, another sickly citrus compan on the Big Board, and the two compa nies were combined. Good start: Th Stoneridge people now controllec 22,690 acres of Florida land.

Through some fancy paper shuffling, Stoneridge (1990 revenues, $160 million) became a NYSE-listed company with a 53% interest in the combined citrus operations. Samelson and his backers ended up with a 40% stake in Stoneridge; the rest was owned by former Orange-co shareholders. But Samelson wasn't much interested in growing oranges and grapefruit. The boyish-looking chairman told shareholders at the company's 1987 annual meeting that the orange groves, including a 42-square-mile tract in DeSoto County, Fla., "could be converted into a higher use." Meaning, development.

This was a serious miscalculation. Most of the real estate was situated far off the beaten path of Florida population growth. Anyhow, Stoneridge lacked cash to develop the properties or to adequately maintain its orange groves. Making things worse, the deal-loving Samelson spent nearly $4 million of Orange-co's scarce cash to buy 13% of Chock Full o' Nuts Corp., the New York coffee vendor. Many of the Chock Full shares had previously been owned by the Samelson-Valassis group's own private investment firm.

Still dealing furiously, Samelson paid $33 million for 33% of o-t-c-listed Major Realty. Major holds title to some choice tracts of Florida property, including 312 acres abutting MCA's popular Universal Studios theme park in Orlando. He rescued another Florida real estate developer from bankruptcy and bought Acceptance Insurance Holdings, a profit-

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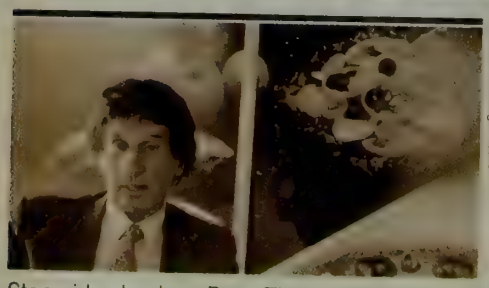
able Omaha-based specialty insurer last year, for $39 million.

Apparently, Samelson was a better deal doer than a manager. The insurance company was supposed to throw off cash to fund the other companies—just as Warren Buffett's insurance holdings had helped fund later Berkshire Hathaway acquisitions.

But Samelson hadn't thought about how insurance commissioners might regard all this paper shuffling. Noting that Stoneridge borrowed $20 million to buy Acceptance and then stuck the loan on Acceptance's books, state insurance regulators for-

Russ Kennedy



Ernie Cox Jr./Chicago Tribune

Stoneridge backers Dave Thomas of Wendy's (top) and Little Caesar's Mike Ilitch

bade the parent from upstreaming any of the insurer's $4 million of annual cash flow until the loan was paid off. Last year Stoneridge, with $72 million in long-term debt, had negative cash flow of $3.4 million.

What now?

Stoneridge is now Thomas Kelly's problem. Kelly is a former associate of billionaire Sid Bass. Kelly and Connecticut-based consultant Robert Anestis were brought in by Valassis and the board as directors in May. They're now trying to clean up the mess.

Moral: Conceptualizing a business is not the same as actually running it. Samelson's backers were so impressed with his conceptualizing skills, they failed to find out if he had equivalent managerial skills.

Little Helen of Troy was a company going nowhere. Then founder Gerald Rubin latched on to the Vidal Sassoon name. Thank you, Procter & Gamble.

Marketing moocher

By Claire Poole

WHAT'S IN A NAME? A lot, if you hook up with the right one.

Eleven years ago Gerald Rubin was in a quandary. His $10 million (revenues) Helen of Troy Corp. was one of the country's leaders in professional hair care appliances—hair dryers, curling irons and the like—and more rewarding than the wig business he originally started in 1969. But even though Rubin had garnered 25% of the beauty parlor "appliance" mar-

Helen of Troy's founder, Gerald Rubin
Happily riding the coattails of Procter & Gamble.

THE NORTHERN STATES OF

MALAYSIA

BY NIGEL SIMMONDS

There is good reason why government investment officers working in Malaysia's northern states — Kedah, Penang, Perak and Perlis — liken their region to a jigsaw puzzle. Individually, each state features a unique set of attributes already familiar to some of the world's largest corporations. But fit the four states together and they collectively form a joint Northern Malaysian portfolio offering a potential for investment second to none.

PENANG

Penang, the most industrialized of the four states, has long been known to foreign investors as a Southeast Asian manufacturing powerhouse. It boasts some of the most visible names in the high-tech industry. Its bustling container port, free-trade zones and flexible work force have, over the last two decades, served to make it a remarkable industrial success story. Today that success is being duplicated across its borders to the north, east and west.

Infrastructural projects, including the scheduled completion in 1993 of two world-class highways running north-south and east-west through the region and the building of a second container port on the island of Penang, have helped to pull together the northern states of Malaysia, creating greater cooperation among the state governments and speeding up the spread of industrialization from Penang into Perlis, Kedah and Perak. Today, all four states are committed to a unified development of the region based on the specific strengths of each area.

Each state has something to offer foreign investors. Planners in the state of Penang, which comprises the beautiful Penang Island and Wellesley Province situated on mainland Peninsular Malaysia (linked together by a 13.5 kilometer bridge) are focusing their attention on high-tech industries. With a population of 1.2 million people, Penang has successfully used industrial development as the main engine for growth in the past 20 years. It is home to electronics giants like National Semiconductor, Intel, Hewlett-Packard and Sony. Strategically located off the northwestern coast of Malaysia between the Pacific Rim and the Indian Ocean Rim, Penang Island, now known worldwide as "Silicon Island of the East," acts as the center for the industrial and service sectors in the northern region of Malaysia.

Using the state's historic links to maritime trade and its role as a major port, the state government in 1970 began developing a policy to transform Penang into an international manufacturing center served by modern airport, container and road links. Industrial estates and free-trade zones (the first of their kind in Malaysia) were created to attract foreign ventures. Many international companies, recognizing the state's potential, quickly moved manufacturing operations to Penang.

Many of those same manufacturing plants, which started out with Penang in the early days of its industrialization and which are fondly referred to as "partners in progress" by the state

government, are expanding. Penang boasts eight industrial estates covering a total area of 600 hectares. These are occupied by some 500 factories producing products ranging from electronic chips and components, computer peripherals, electronic products and telecommunications equipment to metal work, machining and tooling, surgical equipment, audio devices, textiles and rubber products. A large number of these factories have progressed from labor-intensive assembly manufacturing to high-tech, automated production.

Not all have stayed. Some, whose production is more suited to labor-intensive assembly, have moved across Penang's borders to utilize the plentiful supply of cheap and trainable labor

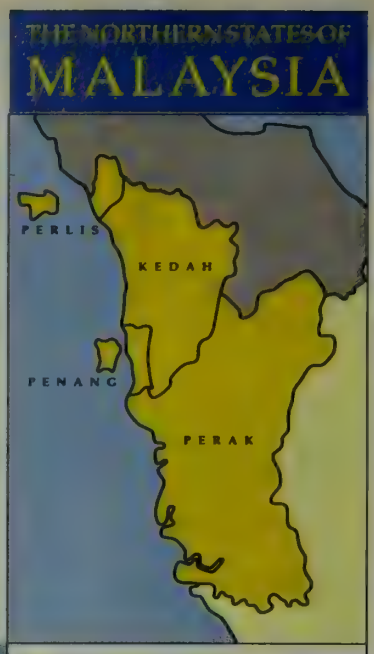
VIEW OF PENANG, WITH THE COMTAR BUILDING IN THE BACKGROUND.

offered by the other states in the northern region. Penang's planners, aware of the route which Northern Malaysia must take, have actively encouraged the movement of such industries into neighboring states like Perlis. This movement has brought new growth to the area.

PERLIS

The smallest and most northern of the four states, Perlis shares a border with Thailand. Its economy, like that of other parts of the country, has traditionally been dominated by the primary sector, namely agriculture, fisheries and forestry. But by far its most tangible natural asset today is its plentiful supply of well-educated workers and cheap industrial land (currently costing in the region of $2.40 Ringgit* per square foot on a 60-year lease). Labor for the manufacturing sector here costs on average $6 Ringgit per day, and 85% of those workers are educated to secondary school level. Perlis is a manufacturer's dreamland.

The state is in the process of industrialization and still continues to rely heavily on its natural resources, primarily processing sugar cane and producing cement that uses the area's plentiful limestone deposits. Primary industry accounts for 37.2% of GDP and at 30,171 workers still



A large number of Penang's factories have progressed from labor-intensive assembly manufacturing to high-tech, automated production.

Perlis' most tangible asset is its plentiful supply of well-educated workers and cheap industrial land.

SHARP FACTORY IN BAKAR ARANG, KEDAH.

employs by far the largest number of people. T manufacturing sector, still in its infancy, alrea accounts for 22.3% of GDP and employs 3,9 workers. Perlis is specifically targeting agric ture-based industries, fish-processing industr and labor-intensive manufacturing as well small-to-medium-size businesses that use lo or imported raw materials.

Foreign participation in Perlis' manufactu ing sector currently includes investments producing photo albums, fishing rods, floorin medical equipment and diamond processi for the export market. In order to cope wi an expected increase in foreign interest, planne are working on a feeder port project to link Perl to Penang, where export-oriented manufacture ship goods around the world. A passenger an cargo terminal to the beautiful free-port island Pulau Langkawi is also planned, as is a ma rapid transit project designed to ferry worke from Perlis to manufacturing plants in neighbo ing states. The state government is also buildin a link road to join the North-South Malaysia Expressway and other infrastructural project all of which will be funded by a $484 millio Ringgit grant provided by the country's feder government.

KEDAH

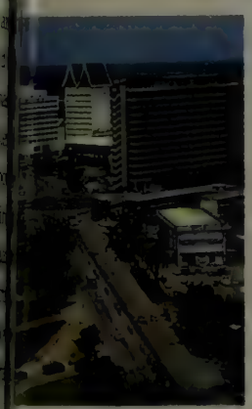
The state of Kedah, Perlis' larger neighbor, i traditionally known as the rice bowl of Malaysia primarily because it supplies 40% of the coun try's total rice requirement. This state of 1.4 mil lion people is diversifying its economy to othe areas, including manufacturing and tourism, t lessen its dependence on agricultural resources.

There are 418 local and foreign-based facto ries in Kedah, located in six industrial estates, tha provide 50,252 jobs for the population. Prim products from the manufacturing sector include rubber and wood-based items as well as electronic and consumer audio products. In the next five years, seven new industrial areas will be developed within the state to cater to the growing needs of overseas manufacturers drawn by aggressive promotions and the attractive investment climate. The new sites will cover an area of 935 hectares, cost $207.4 million Ringgit to develop and will be located near the North-

*$1 Ringgit = approximately US$.3589

uth Malaysian Expressway and East-West ghway to expedite the transportation of goods.

One of those new areas, at Kulim near the rder with Penang, will be developed into a igh-Technology Industrial Estate, the first of its nd in Malaysia. It is scheduled for completion 1993 on 200 hectares of prime industrial land. he Kedah state government has already secured n anchor tenant in the form of a $500 million nggit investment by a silicon wafer group. The ulim Hi-Tech Industrial Estate is planned as a owth core in Kedah which will act as a prime otor to change the state's industrial structure om labor intensive to highly automated. For the rst phase of development in the state, the Kedah overnment is targeting integrated circuit industries, video equipment manufacturers, color TV tube producers and companies producing electronic components.



ILW OF ALOR SETAR, CAPITAL I KEDAH.

Kedah is, however, not neglecting its greatest earner, agriculture, a sector that, at $1,383.8 million Ringgit, provides almost half of the state's GDP. It is keen, s one would expect from the country's rice bowl, o promote foreign investment in agriculture-based industries, together with those in rubber, extiles, timber and rice paddy by-products.

PERAK

Further south in Perak, agriculture still rules the day, but is closely followed by an enormous mining industry that uses the state's healthy deposits of minerals. Tin was discovered in Perak more than 200 years ago, and today the state is the world's largest exporter of the metal. Yet despite its rich natural resources, Perak has worked to lessen its dependence on tin, primarily because of the instability both of demand and price. Today the state works to develop Perak's industrial potential.

Perak has a population of 2.3 million people, with 31% of those residing in the Kinta Valley area, the focal point for commerce, trade and finance in the state.

The five prominent institutes of higher learning in Perak contribute to the availability of a large pool of professional and management personnel, as well as an abundant supply of semi-skilled workers, many of whom have already been trained in basic knowledge required by the manufacturing industry.

Kedah plans a high-technology industrial estate, the first of its kind in Malaysia.

Manufacturing in Perak has shown good growth in the last decade, with investment from overseas in that sector totaling $3.332 billion Ringgit between 1971 and 1987. Today 798 factories are active in Perak's industrial sites, of which 16% are in the food manufacturing and processing sector.

The initial phase of industrialization in Perak was concentrated primarily on industries that supported agriculture and mining, but in 1986 the state formulated a master plan to encourage growth in the industrial sector, emphasizing the maximum usage of its natural resources to be turned into value-added products.

Now the state is targeting foreign industries involved in the production of ceramics (the state has abundant deposits of ball clay) and other non-metallic-based products: rubber-based industries, including surgical rubber gloves and medical latex products; wood-based industries, making use of Perak's vast supply of commercial timber; agro-based industries; engineering and electronics and electrical production.

ELECTRONICS WORKER AT CARSAM SEMICONDUCTOR, IPOH IN PERAK STATE.

Perak is targeting foreign industries involved in the production of ceramics and other non-metallic-based products.

A CLIMATE FOR GROWTH

Governments of the four northern states of Malaysia work closely with the central government within a federal framework based on parliamentary democracy. Emphasizing foreign investment as the major source of growth, both federal and state governments work hard under the Malaysian Promotion of Investment Act to provide the best possible economic climate for foreign investors. Among the primary financial incentives offered is the "pioneer status,"

whereby foreign ventures are given a five-year period of tax relief which is renewable for a further five years depending on the size of the investment. Companies may also be granted an investment tax allowance of 100% in recognition of qualifying capital expenditure incurred within five years of inception of the project.

Manufacturers producing solely for the export market may also be eligible for Malaysia's Export Credit Refinancing Scheme (providing preferential rates of interest on short-term credit), together with incentives offering reductions on insurance premiums, promotion of goods, building allowances and incentives for research and development and training. Free trade zones provide a 100% exemption from duties. Furthermore, under the country's equity laws, foreign investors can hold 100% of equity if that company exports 80% or more of its output, regardless of whether the product competes with products currently being manufactured in the Malaysian market.

PERAK HANJONG CEMENT WORKS, AT PERAK.

In addition to these financial inducements and first-class infrastructure, Malaysia, in particular northern Malaysia, offers probably the most vital fundamental factors important to foreign investors, namely political and social stability, a friendly and hard-working people and a pro-active and responsive government machinery. These factors enabled Malaysia to achieve a real economic growth of 10% in 1990, which was a volatile and turbulent year for the world political economic scene, with only a 3% rise in the consumer price index.

The Malaysian community is multi-racial, with people of Malay, Chinese, Indian and Eurasian descent. Despite cultural and religious diversity, there is a remarkable degree of mutual tolerance and understanding which is the basis of the country's social stability. There is freedom of worship guaranteed under the Malaysian Constitution, which also provides for Islam as the official religion. Although the Malay language is the official language, many Malaysians speak and understand English as an effective working language.

All four states are committed to a unified development of the region based on the specific strengths of each area.

RUBBER GLOVES PRODUCTION BY FLORIDA-BASED COMPANY

Human resources are the primary asset of Northern Malaysia, which has a total population of 5.5 million people and a growth rate of 2.5%. With a minimum of nine years of schooling, the relatively young work force is highly motivated and trainable. The education system provides a good network of technical institutes, while there are two full-fledged universities in the region: the Northern Malaysia University situated in Kedah, and the Science University of Malaysia in Penang, which also operates a branch campus in Perak. There are also several private colleges offering courses in computer science, electronics and business management.

Various skills development programs are being actively promoted by both the public and private sectors.

LOOKING TO THE FUTURE

Foresight and forward planning on the part of the four popularly elected state governments in Northern Malaysia have enabled the creation of a superb infrastructural framework and ensured smooth implementation of development projects. Looking to the future, efforts are now being made to develop a "Triangle of Growth" linking this fast-growing region of Malaysia with southern Thailand and Northern Sumatra of Indonesia. The basic aim is to "achieve economic synergy" (in the words of one leader) through better cooperation and more effective use of the rich natural and human resources of these three regions, exploring and exploiting the great potentials in joint efforts for industrial development, trade and tourism.

The confidence of foreign investors in the region is perhaps best reflected in a recent speech made by Mr. Hiroyuki Koga, managing director of Sony Electronics (Malaysia), at the opening of two new large-scale Sony plants in Penang. He said, "The stable political and economic climate, the unfailing support from the Malaysian government and the work attitude of its skilled and highly disciplined people; all these have made Malaysia a viable high-tech manufacturing base for Sony. Simply, Malaysia is the most important invested country in Asia to Sony."

With endorsements like that, it is no wonder the country, and Northern Malaysia in particular, is such a paradise for investors. ■

DESIGNED BY HOASHI COMMUNICATIONS INC. NEW YORK

et, his company was going nowhere. ales were flat year to year. No upturn n sight.

How about the consumer market? "We didn't have a household name," rugs Rubin, now 47. "Nor did we ave millions of advertising dollars to ake us one."

Then one day his father called him ith a tip. A longtime wholesaler of hampoos and conditioners to the eauty industry, Louis Rubin had ead in a trade magazine that Vidal assoon wanted to license his name. assoon, the trend-setting hairdresser o such stars as Elizabeth Taylor and Mia Farrow, was already successfully marketing a line of shampoos.

Rubin didn't dawdle. He hopped a plane to Los Angeles and made Sassoon a bold offer: $100,000 up front and a rich 10% royalty (the going rate was 6%). Plus he convinced Sassoon that the small, El Paso-based Helen of Troy would give his name more attention than would Clairol or Gillette, which were also angling for the license rights. Sassoon liked Rubin's style. A deal was struck within two weeks.

Today Helen of Troy is a leading player in hair care appliances for the consumer. Its curling irons are consistently the top-selling in the country; its hair dryers are in a constant battle with Conair; its hot rollers are second only to Clairol in sales. All Helen's retail products carry the Sassoon name. Since 1980 Helen's sales have grown nearly twelvefold, to $117 million in fiscal 1991 (ended Feb. 28).

Rubin made his break into the consumer end of the business without having to commit large amounts of capital. He contracted out manufacturing to factories in Hong Kong and later expanded into the Shenzhen area of China's southern Guangdong province (FORBES, *Aug. 5*).

But the biggest money saver for Rubin was that he could get a free ride on Procter & Gamble, which acquired the Vidal Sassoon name in 1985. Sassoon is the best-known hairdresser in the country, thanks in good part to the fact that P&G spends over $50 million a year advertising its Vidal Sassoon line of shampoos and conditioners. Helen of Troy, which spent only $7 million on advertising last year, obviously benefits from the P&G-created name recognition. Says Richard Edelman, analyst at Southwest Securities in Dallas, "They've really ridden the coattails of P&G."

Reid Horn

Aaron Shenkman, Helen of Troy's president

Heading up the company's push into Europe.

All this has helped Helen of Troy ride out some rough spots. Last year three major customers—Best Products, Ames Department Stores and Hills Department Stores—filed for protection under Chapter 11, sticking the company with $2.1 million in bad debt. That, coupled with the recession, brought revenues down 2% while inventories ballooned to $62 million, up 36% from the year before. That resulted in a $1.9 million storing, handling and transferring charge. And Beauty Biz, a chain of Southwest beauty supply stores Helen bought in 1988, lost nearly $1 million that year.

Result: Profits were more than halved last year, to $4.6 million, or 93 cents a share. Helen of Troy shares collapsed from a high of 21⅞ to as low as 6¼.

But Rubin knew the situation was temporary. He was sitting with $17 million in cash and no long-term debt. He took advantage of the weakness in the stock to go into the open market with cash and buy back 800,000 of the company's o-t-c-traded shares—about 15% of the company—at an average price of 9½. Recent price: 15. Says Rubin, "It was like buying Helen at half price."

Sure enough, Helen already shows signs of a turnaround. While sales were relatively flat in its first quarter of 1992 (ended May 31), earnings per share were up 20%, inventories down 11%, and Beauty Biz broke even.

More momentum should come from abroad. Last year P&G granted Helen the Vidal Sassoon license for nine European countries (Rubin had only the U.S. and Canadian rights previously). Helen's president, Aaron Shenkman, 50, who joined the company 19 years ago as comptroller, is heading up the international push. He says the company plans to start shipping to Europe this fall, two years after P&G began selling its Sassoon shampoo brand there. P&G has so far spent over $30 million on advertising in Europe to establish the brand name. Sassoon is already the top-selling shampoo in the U.K. And in July Helen of Troy was also granted the license for Mexico.

Back in 1971 Rubin sold 40% of the company to the public for a paltry $1 million; an investor who bought 100 shares at the offering for $575 would hold shares worth $3,000 today, adjusting for splits. So Rubin is not complaining. He and his family still own 20% of the company, a stake worth $13 million recently. Thank you, Procter & Gamble.

Privatizing the operation of some Navy ships was supposed to help the merchant marine. It wasn't supposed to enrich a union and its boss.

Unforeseen consequences

By James R. Norman

Deldaye/SIPA

Privately manned Navy ship unloading in Saudi Arabia last year

Workers claim they were overworked and underpaid by a company that was until recently backed by New York's notorious Frank family.

Edward Keating

ABOVE:
Navy sub hunter
LEFT: Ready Reserve ship
Over half the 69 ships called out of mothballs for the Gulf war were manned by District 2.

IT SEEMED LIKE a great way to prop up the ailing maritime industry and save the taxpayer money: Farm out the operation of noncombat Navy ships to private firms through competitive bids. On paper, it has been a big success. The program picked up steam in the mid-1980s, and the Military Sealift Command has now contracted out more than 60 ships, from tankers to submarine hunters, to a handful of small companies that have sprung up to vie for the business.

Like many a well-intentioned government program, this one may have gone awry. The program has become a honeypot for one union and its leader: Raymond T. McKay, now about 70, is an affable but rough-hewn former cab driver. As president of District 2 of the Marine Engineers Beneficial Association—known as D2—McKay has won the officer and engineer jobs on every one of the Navy ships privatized since 1985. In addition, D2 represented crews on over half of the 69 privately run cargo ships called up for the Iraq war. Some 80% of D2's 3,050 members worked on U.S. ships last winter.

How did the union land all those jobs? Simple. By the good capitalistic method of being the lowest-cost supplier. Most maritime unions call for a pay scale that averages about $82,000 a year for a ship captain and $49,000 for an assistant engineer. Captains who are D2 members are willing to take about 10% less, and at least one government D2 contract paid engine room and other workers less than minimum wage. Labor costs make up as much as 70% of the operating cost on these privatized ships. Having an edge on wages almost guarantees contracts to operators who use D2.

Some industry officials praise McKay for bringing reality to inflated maritime wages. "This is the American economic system at work," says a top officer at the Military Sealift Command, asking anonymity.

But there are some unanswered questions. Under D2's rules its agreements don't have to be ratified by members, so union officials have great leeway in making deals. Wages vary from company to company and even ship to ship. McKay and D2 have even guaranteed credit for at least one bid-winning company. "How do you de-

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Navy Marine Engineers Beneficial Association

Raymond McKay
An ex-cabbie, he runs D2 and its nearly $300 million pension fund like a family business.

cide who gets a special deal?" asks D2 dissident William Roffey.

A person formerly with the Military Sealift Command says D2 may have spread the Navy contracts around among its companies by giving the best wage deal to the bidder it wanted to win a particular contract. The suspicion began with the agency's 1989 award of a three-to-five-year contract to operate ten oceanographic ships. The low bidder, at $142 million, was MAR Ship Operators, Inc. Its crew costs were $5 million below those of other D2 companies bidding.

A year later Bay Tankers, one of those losers on the oceanographic contract, won the contract for eight fast sealift ships, again with slightly lower labor costs than other D2 companies. Four of those ships had been operated previously by International Marine Carriers, Inc. But IMC seemingly suffered no pain: In March it won a five-year, $170 million contract to operate nine sealift tankers. Once again, small differences in labor costs were the key. D2 Vice President Edward Kelly denies there was any favoritism, claiming that D2 quoted each bidder the same wage rates.

But suspicions remain. In August the Naval Investigative Service raided an oceanographic ship operated by MAR—now called MSO, Inc.—as part of a continuing contractor probe.

However low the winning bids may be, it's doubtful that they have been a bargain for the taxpayer. Civil service crews would probably be cheaper. Moreover, to prevent these small operators from losing money and defaulting on contracts, the agency has granted scores of modifications that can ratchet up the cost. There were 33 such changes in a 1985-88 contract with Sea Mobility, Inc. to run submarine hunting ships, using D2 labor.

Some of the bidders who have won contracts with D2 labor have had dubious backgrounds. Sea Mobility was controlled by the late C.C. Wei, whose other companies had defaulted on millions in government-backed loans. Seatrain Lines Inc., from which Bay Tankers emerged, has stuck the government for huge bad debts. The Frank family, which faces a ban on its New York harbor tug and barge business after major pollution spills, until recently had a big stake in IMC.

Some D2 operators have had serious labor problems. Sailors on one Navy cargo ship, the IMC-operated *Antares*, recently staged a sickout that tied the ship up in a German port. Strict low-cost bidding "provides an incentive for some labor unions to underbid in a manner that damages our ability to activate ships," says Robert E. Martinez, a deputy administrator at the U.S. Maritime Administration, responsible for reserve ships.

The D2 union itself has some questionable connections. When he finished serving a prison sentence for labor racketeering in 1982, former Longshoreman official Anthony Anastasio (nephew of the former Murdock Inc. boss and a reputed member of the Gambino crime family) received a no-show job at D2. The job was axed when federal officials objected. McKay's brother Donald was sentenced to four years in prison in 1988 for soliciting construction kickbacks while working for the Seafarers International Union, a close ally of D2.

To fund D2's lobbying, members are typically asked to donate at least $200 a year to D2's political action committee, and a like amount is requested for the union's "Save the Hiring Hall" fund—even though the union simply calls members at home when it has an opening. "If you want that phone to ring, it might be a good idea to contribute," says Joseph Cerva, who lost to McKay in an election last year in which roughly half the ballots were disqualified. These donations are on top of average dues of almost $900 a year per worker to help pay the union's $6 million in expenses. Among those expenses is McKay's salary, which in 1989 was $600,000. There are also salaries for McKay's two sons who are officers.

Having cornered the market for federal ship jobs, what's next for Ray McKay? More expansion: The rival Masters, Mates & Pilots union has complained to the AFL-CIO that D2 has raided its units. D2 has also been active in organizing government employees in Florida, where McKay runs the union from a former motel complex near Fort Lauderdale. He dabbles in racehorses for a hobby.

Not the least of McKay's strengths in the intensely political maritime world is his talent for winning friends in influential places. Tiny D2 has been liberal with contributions for Walter B. Jones (D–N.C.), chairman of the House Merchant Marine & Fisheries Committee; Jones' wife, Elizabeth, is paid an undisclosed sum to edit a trade association magazine funded by companies according to the terms of their D2 labor contracts.

McKay's small union made almost $1 million in various donations through two PAC's in 1989-90. Looks like money well spent.

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NORTHWEST AIRLINES

In the stock market, 'tis better to sell too soon than to overstay and risk riding a major downdraft.

Exits and entrances

By A. Gary Shilling

FROM January 1946 through June 1991—nearly half a century—the Dow Jones industrial average rose at an 11.4% annual rate, compounded quarterly and including dividend reinvestment but no deductions for taxes. Thus a dollar turned into $114.50 in 45½ years. With the CPI rising at a 4.4% annual rate over those years, the real return after adjusting for inflation was a healthy 6.7%.

This could, of course, be turned into an argument for a buy-and-hold policy. As shown in line two of the table on page 156, the investor who was out of stocks and in Treasury bills in the 50 strongest months and long in the remaining 496 had a pitiful 4.2% compound return. Why try to time markets when just buying and holding yields very good returns? But, unlike honesty, being always fully invested may not be the best policy. There are times when it is better to be out of the market even if being out costs some potential profits.

Here's why: Suppose you were clairvoyant and fully invested in the postwar era except that you got out of stocks and into Treasury bills in the 50 weakest months. Lo and behold, instead of 11.4% your annual return would have exploded to a 19.9% annual return—14.8% after inflation.

By being out of the market during the worst 50 months but fully invested the rest of the time, you would have turned $1,000 into over $3 million in 45 years. This is three times the gain from the buy-and-hold strategy.

Why would it pay so well to be out of the market at crucial times? The simple but crucial truth is that if a stock drops 50%, a 50% gain won't take you out even. Your stocks will have to double from the low to bring you to ground zero. So, if you were absent in the 50 weakest months, you had much more to invest in the better months. Furthermore, your Treasury bills would have kept you solvent when you were out of stocks, because they yielded 5% on average in the postwar era, more than the 4.6% average dividend yield on the DJI.

Line four of the table shows even more powerfully the advantage of being out of the market when it collapses. Suppose you were out of stocks and into Treasury bills not only in the 50 weakest months but in the 50 strongest months as well. Your average return, 12.1%, exceeded the 11.4% of buy-and-hold investors. Extraordinary! Further, the table shows that if you were willing to sell short in declining markets, your returns

John Segal

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would have been stupendous, even if you missed the rallies.

The moral of this exercise is clear. It's profitable to be long in stocks over time, but much better to be short, or at least out of stocks in bear markets. Remember: Recouping losses is harder than making profits.

Why, then, do investors and Wall Street love to be long and usually fully invested, almost never opting for shorts or even heavy cash positions? The bullish bias is deep-seated with even ethical overtones. "The market is doing better" means it's rising to most people. "Oct. 19, 1987 was the worst day in Wall Street history"—but not for those in cash and waiting to buy cheaper, or for short-sellers.

The bullish bias probably springs from the natural optimism of Americans. Growth in anything, including stocks, is good.

Investment bankers, who generate big bucks for Wall Street and therefore have powerful voices, hate negative recommendations by security analysts and strategists. Investment banking relationships could be damaged and underwritings postponed. Indeed, Wall Street and corporate managements can be brutal on those who dislike the market and specific securities, as a number of us previously employed by various Wall Street firms can attest.

Besides, those managing other people's money get nervous when they are light on stocks and heavy on cash. Clients may wonder why they are paying management fees if their funds are sitting in Treasury bills.

Be this as it may, investors would do well to ponder the advantages of being out of the market at times. When? There are no guarantees, but there are some reasonably reliable guideposts. Most of these now say that it is getting close to exit time.

Let's check out some important ones. Stocks do compete with bonds, so when the DJI sells at 30 or more times its dividends, stocks are relatively expensive and near their peak. They are cheap and due to rally when the DJI is at 16 times its dividends. At present, the ratio is over 30, right back where it was at last summer's market peak.

The P/E ratio also tends to signal the times to get in and out of stocks. When the S&P 500 index is selling at 18 or more times its earnings over the last 12 months, it's time to unload, and at 12, it's time to buy. Now the P/E is over 18.

Similarly, the DJI price/book value ratio, now about 2.2, is clearly above the 2 warning level. Stocks won't be cheap until it falls to about 1.

Other reliable indicators are flashing the red light. Mutual funds now have only 9% of their assets in cash, so they have little buying power to propel the market. Strange but true, the market is vulnerable when mutual fund managers are optimistic enough to be fully invested, and a screaming buy when they are negative and hold lots of cash.

Here's why. Tops occur when every potential buyer of stocks is a rampa bull and is fully invested. Then all th are left are potential sellers. Convers ly, a solid bottom is reached wh everyone is so discouraged by the be market that they never want to ow another share. At that point, all th potential sellers have sold, leavir only potential buyers.

It's also true that stocks are reac for a selloff when secondary offerin are heavy, indicating that corpora insiders, who are close to the actio are unloading. Since 1959, seconda offerings have reached peaks befo the market topped in 7 of the 1 instances, with an average lead of months. At 24 secondary offering per month, the current level, th indicator is bearish.

Stocks are also vulnerable whe investors have been so exuberant tha the number selling above their 200 day moving average reaches 80% about its current level. Conversely the market is cheap when selling ha carried this number below 20%, as wa the case last fall.

Most reliable indicators say that th bull market is about over, but can i continue a while before dying? O course it can. In the spring of 198 many of the indicators screamed "ge out," and some astute investors did only to see the DJI spurt another 50 points. The price/dividend ratio, fo example, was at the 30 sell level earl in the year but jumped to almost 40 i August amid widespread convictio that stocks and bonds had becom uncoupled and dividend yields no longer mattered. But matter they did as the crash painfully revealed.

This brings me back to my main point. If you are willing to heed the warning signs and bail out of stocks, you may miss the last gasp of a bull market. You will save a bundle by avoiding the following bear market, however, and end up with better performance than those who bought and held indefinitely.

"All the world's a stage, and all the men and women merely players," wrote the Bard, but most investors don't believe they can successfully time their exits and entrances. So they sit tight through thick and thin. Trying to time the market is a lot tougher. It's also potentially much more rewarding.

DJI simulations: January 1946–June 1991

50 strongest months	50 weakest months	All other months	Appreciation	Average annual return
long	long	long	$114.50	11.4%
0	long	long	4.70	4.2
long	0	long	3,185.00	19.9
0	0	long	158.00	12.1
0	short	long	2,663.00	19.3
short	short	long	85.00	10.6
long	short	long	53,640.00	27.6

If you were short in the 50 weakest months and otherwise long, $1 in January 1946 would now be worth $53,640.

Saint Bernard

Statue in the Forbidden City, Beijing

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an direct-response advertising help raise
he intellectual level of TV programming?
ime Warner thinks it can.

Smarter boob tube?

IME-LIFE Video & Television sold 05,000 sets of videotapes of *The Civil War*, the highly lauded historical documentary by filmmaker Ken Burns that cost $4.5 million and took bout five years to make. It became he most watched series in public elevision history.

That helped convince Time-Life to ake future programming matters nto its own hands. Earlier this year Time-Life suggested that Ken Burns turn his skilled eye on the Old West and ponied up $2 million of the production's $6 million cost. Projected air date: 1995.

Thus is Time-Life Video demonstrating how high-grade programming can be produced without depending exclusively on government and corporate handouts.

Already the Time Warner unit believes it has the next *Civil War* on its hands with *Land of the Eagle*, an ambitious new documentary produced by WNET in New York with BBC/Bristol. Scheduled to run the week before Thanksgiving and for eight hours straight on Thanksgiving Day on public television stations, the series combines sweeping shots of grassland and mountain peaks with drawings of Colonial settlers and Indians—yielding a kind of hybrid environmental history of the U.S.

All this is very good news for people who do not want to watch childish sitcoms, mind-numbing talk shows and psychedelic music videos. The boob tube is going to get a whole lot more intellectual. Time-Life has hooked up with the BBC for a forthcoming series on baby animals and with cable's Discover Channel for one on the history of submarines.

Sure, some people will tape these programs from the broadcasts, just as many people borrow bestselling books from the public library. But Time-Life has discovered that many more prefer to purchase the snazzy presentation and high tape quality of a

Time-Life Video's Candice Carpenter **Profits from video sales could mean smarter television and less reliance on government and corporate handouts.**

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Images from the BBC-produced "Land of the Eagle" companion book to the TV series **Time-Life feels this hybrid of nature and documentary history could rival "The Civil War" in popularity.**

boxed set.

The whole deal is just another example of the tremendous possibilities opening in the communications business. Time-Life Books spawned Time-Life Video in 1988 to market video series in regular installments—known in the business as "continuity" sales. Among other techniques, it used direct-response marketing—that is, advertising with coupons or 800 numbers through which interested consumers could place their orders. Time-Life Video had revenues of only $4 million its first year. By 1990 sales had risen to $36 million, and they're projected to hit $55 million this year, making Time-Life the leader in the video direct-response business. A new series on aviation called *Air Power,* produced in conjunction with McGraw-Hill's *Aviation Week & Space Technology* magazine, is already set to eclipse *The Civil War* as Time-Life's biggest seller.

The rest of the market is moving just as fast. In 1989 direct response accounted for under $200 million in a $1.5 billion market for videocassettes; last year, more than $400 million in a $1.75 billion market. Video consultant Richard Kelly of Stamford, Conn.-based Cambridge Associates figures direct-response video alone could hit $1 billion in five years.

How will Time-Life market *Land of the Eagle*? Drawing on its huge database detailing the interests and buying patterns of Time-Life book buyers, Time-Life Video picked out roughly 5 million names for an initial mailing.

These include the 1 million history buffs who bought the *Old West* series of Time-Life books, the 1 million who bought *Mysteries of the Unknown* and are expected to respond to the element of Indian spirituality in *Land of the Eagle,* the 100,000 buyers of *Nature* videos and the 80,000 buyers of the Jacques Cousteau video oeuvre.

On every 1,000 of these mass mailings, there will be anywhere from 8 to 12 sales. When the responses are in, Time-Life will do what's known as "statistical regression analysis," which reduces the common thread among the orders to a mathematic equation. The equation could express the likelihood of an *Old West* buyer buying a particular new product, versus the likelihood of a *Mysteries* buyer's buying it. That way Time-Life can decide which mailing lists are worth using.

Time-Life can apply that equation to Time Warner's newly merged database of 44 million customers—magazine subscribers, record buyers, basically everyone who bought a product from either company and whose purchase was recorded.

At this point, we leave the real world and enter the world of conjecture. Nobody really knows whether successful marketing can thus be reduced to neat formulas. It's still worth trying, though, given the high and going-higher cost of reaching potential customers these days.

Time-Life bombed with a video series on the Chinese martial arts of tai chi and kung fu. Too many customers canceled after receiving only one tape in the two-tape series. Generally, customers who order by credit card through a TV commercial stay with the series longest, and C.O.D. customers bail out earliest. As time went on, the customer base switched from a heavy credit card crowd to C.O.D. buyers who returned the tapes without purchasing them. "We got all excited about the [initial] orders but found eventually that we were losing our shirts very enthusiastically," says Candice Carpenter, president of Time-Life Video.

Carpenter doesn't expect such a fate for *Land of the Eagle.* She has mobilized the full marketing resources of Time Warner to pitch in. The magazine division will carry advertisements promoting the initial broadcast; Time Warner has an option on a BBC-produced, coffee-table companion book to the series as well as retail rights to sell *Land of the Eagle* through a retail distributor when mail-order sales have peaked. Time-Life says it is also close to signing a corporate sponsor that can use the set of tapes as a premium as well as get a certain amount of space on the video for advertising. —J.L.

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Kings and federal judges have jobs for life. Want a similar deal? Make sure you get it in writing.

"You can't fire me!"

By James Lyons

WHEN YOUR BOSS says, "You have a job for life," how seriously should you take him? If fired, can you sue?

Paul Zimmerman did. The former meat market manager for H.E. Butt Grocery Co. started working for the Texas grocery store chain in 1950 and by all accounts was a model employee.

In the early Eighties Charles Butt, the company's longtime president, told Zimmerman, "You've done a really good job, you've earned your way and you have a contract for life."

Why, then, was Zimmerman sacked in 1986? According to the company, Zimmerman was canned for stealing inventory and then trying to cover it up.

Zimmerman sued for breach of contract. Contract employees can be fired, of course, but their employers must be prepared to prove that the employee was terminated "with cause." Zimmerman argued he did not filch the meat or falsify any records and was therefore fired without cause.

Butt countered that Zimmerman did not have a contract. In the company's view, Zimmerman was an "employee at will." Which is a fancy way of saying that Butt could fire him for any reason whatsoever.

Zimmerman won big with U.S. District Judge Walter Smith Jr. He awarded Zimmerman $391,000 in damages. Smith's opinion was a stinging rebuke to H.E. Butt. Not only did Zimmerman have a contract, but to accuse him of dishonesty "is itself a dishonorable and shameful act."

But where was the contract? Smith found it in two places. The judge held that Zimmerman was a contract employee because of an employee handbook he had signed. Zimmerman testified that his bosses had told him that the handbook was a contract. Moreover, Smith found that H.E. Butt had gone to great lengths to justify firing Zimmerman for committing one of the offenses that the handbook said can result in immediate discharge. In other words, Butt was treating the handbook as if it were a contract.

The second aspect of Smith's ruling dealt with the Statute of Frauds. This English statute was passed in 167[illegible] and some form of it has been adopt[illegible] in virtually every state, including Te[illegible]as. It addresses the issue of whi[illegible] contracts can be oral and which mu[illegible] be written. In Texas, contracts mu[illegible] be in writing if they cannot be pe[illegible]formed within one year.

How did Judge Smith justify fin[illegible]ing an oral pledge of lifetime emplo[illegible]ment binding? Because the contra[illegible] between Zimmerman and Butt cou[illegible] be completed in less than one year an[illegible] therefore did not have to be in writin[illegible] under Texas law. There was no s[illegible] time for the contract, Smith note[illegible] and the contract could be complete[illegible] in less than a year if—during th[illegible] period—Zimmerman either becam[illegible] unable to work or was terminated f[illegible] good cause.

Yet Zimmerman's revenge did n[illegible] last long. A three-judge panel of th[illegible] Fifth Circuit unanimously reverse[illegible] Smith on every aspect of his decision[illegible]

The appeals court di[illegible] not think the Butt employ[illegible]ee handbook was a con[illegible]tract. Although Judg[illegible] Smith had relied on an ear[illegible]lier Fifth Circuit decisio[illegible] that determined that [illegible] United Airlines employe[illegible] manual was a contract, th[illegible] appellate judges said Zim[illegible]merman's case was differ[illegible]ent. Why? Using contract[illegible] like language, the Unite[illegible] manual said an employe[illegible] could only be fired "fo[illegible] cause." No such languag[illegible] was present in the H.E[illegible] Butt handbook.

Moreover, the appellat[illegible] court wrote that compli[illegible]ance with a manual shoul[illegible] not be turned against a[illegible] employer to make a non[illegible] contractual handbook [illegible] contractual one.

The appellate judge[illegible] were even more dismissive of Smith's finding that Zimmerman had a lifetime contract. The judges cited a[illegible] earlier case that flatly declared lifetim[illegible] promises of employment must be i[illegible] writing to be enforceable.

There are some obvious lessons i[illegible] the sad story of Paul Zimmerman Employers: Watch what you say. Employees: Get it in writing. ■

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Buying Marathon Oil saved U.S. Steel from the scrap heap. Now dividing USX shares in two may polish up a lackluster stock.

U.S. Steel (& Oil)

By James R. Norman

Scott Goldsmith

USX Chairman Charles A. Corry
The whole was worth less than the sum of its parts.

BREAKING UP is hard to do, but it sometimes better for both partie Take the case of USX Corp., whic started life as U.S. Steel Corp. and wa once so powerful it attracted the ire c the Justice Department. USX is proba bly one of America's most restruc tured companies.

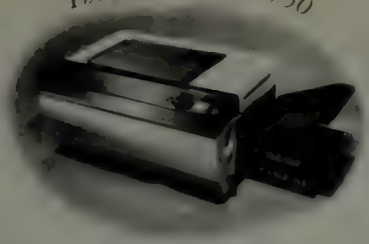
Until last May, the $21 billio (1990 revenues) oil and steel gian was suffering from an identity crisis o sorts. It was still the country's larges steelmaker. But at $5.5 billion, stee sales were a mere one-third those o Marathon Oil, acquired nearly ter years ago.

The company's stock languishe throughout the 1980s and became a playground for raiders: first Rober Holmes à Court and then Carl Icahn who amassed 13% and waged a losing proxy fight last year to split the oil anc steel operations into separate compa nies. Management tried hard to get a better reputation on Wall Street. Ir the past decade it took $3 billion ir writeoffs and sold $7 billion in miscellaneous assets—from chemicals tc railroads. But what was it? A steel company? Or an oil company?

USX Chairman Charles A. Corry took over from David M. Roderick in 1989 and agreed with Icahn that neither the oil nor steel side was being properly valued by analysts on Wall Street. But he didn't want the tax and debt refinancing problems of a traditional spinoff.

So Corry, now 59, a soft-spoken lawyer-accountant, fielded his own recapitalization plan: one company, two stocks. It was an unusual plan. The parent owed all the debt and managed both businesses; but the

The original Savin 750



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U.S. Steel's Fairless Works near Philadelphia
Once a flagship for USX, its steelmaking ended this year.

equity part of the capital was broken into two parts. In May the holders of each USX share received one share of USX-Marathon Group and one-fifth share of USX-U.S. Steel Group. Stymied, Icahn sold out for a small profit to brokers, who have scattered his shares among institutions.

The result? Wall Street is finally paying attention again to USX. From a share price of 28⅞ before the split was announced in January, the two stocks now trade at the equivalent of over 37, up 28%. Ironically, the steel shares have outperformed the oil. But both stocks seem to be on a roll, and for the first time in years, analysts are being upbeat about USX.

First, there is good news on the oil side. Unlike almost every other major company, Marathon is poised for growth. When its big East Brae field in the North Sea comes on stream in 1995, crude output will jump from about 200,000 barrels per day to over 225,000.

Meanwhile, Marathon has found what could be a billion-barrel field in Tunisia worth up to $8 per share, analysts say. Two new Gulf of Mexico finds have as much U.S. reserves as Marathon pumps in a year. It also boasts some of the country's most profitable refining and marketing. The reason: The company focuses fuel sales on a few Midwest states and has upgraded refineries to use cheaper crudes.

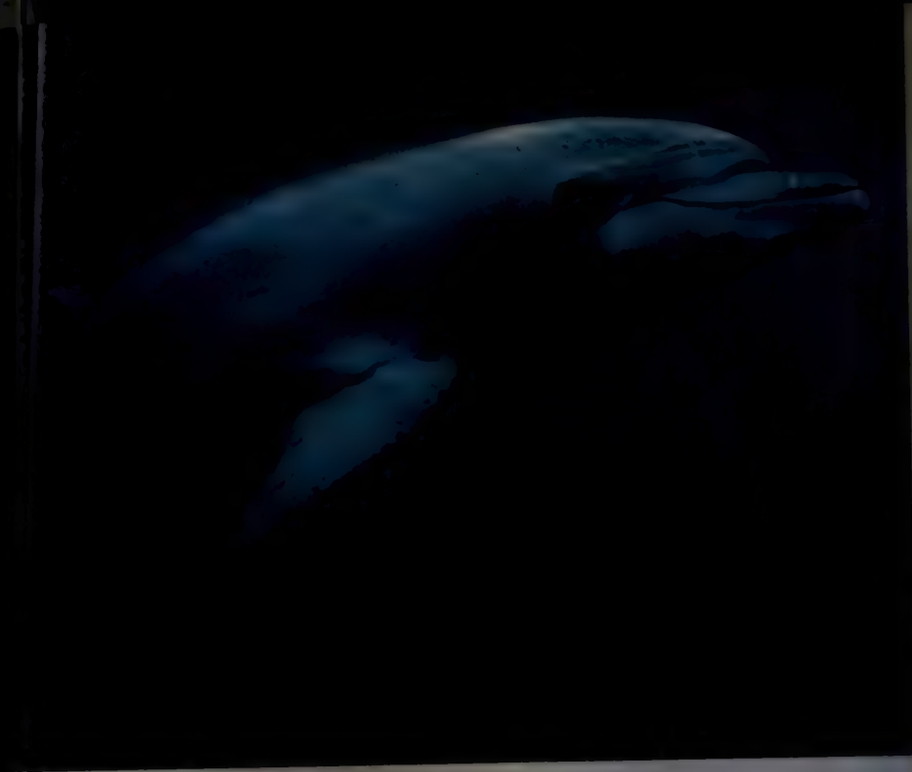
The news in steel is still bad but less bad than it was. Having cut raw steel capacity by half since 1983, to 16.5 million tons a year (three plants versus seven), and poured investment into continuous casting, USX has vastly reduced its fixed costs while boosting productivity. Man-hours per ton are one-third the 11 hours needed in 1982, but wage and benefit costs are roughly the same $20 to $25 per hour, even after inflation, thanks to union concessions. The steel side lost $90 a ton on very low volumes in the first quarter, but that eased to a loss of $41 a ton in the second quarter and may near break-even in the third, analysts say. Order books are filling as the recovery strengthens.

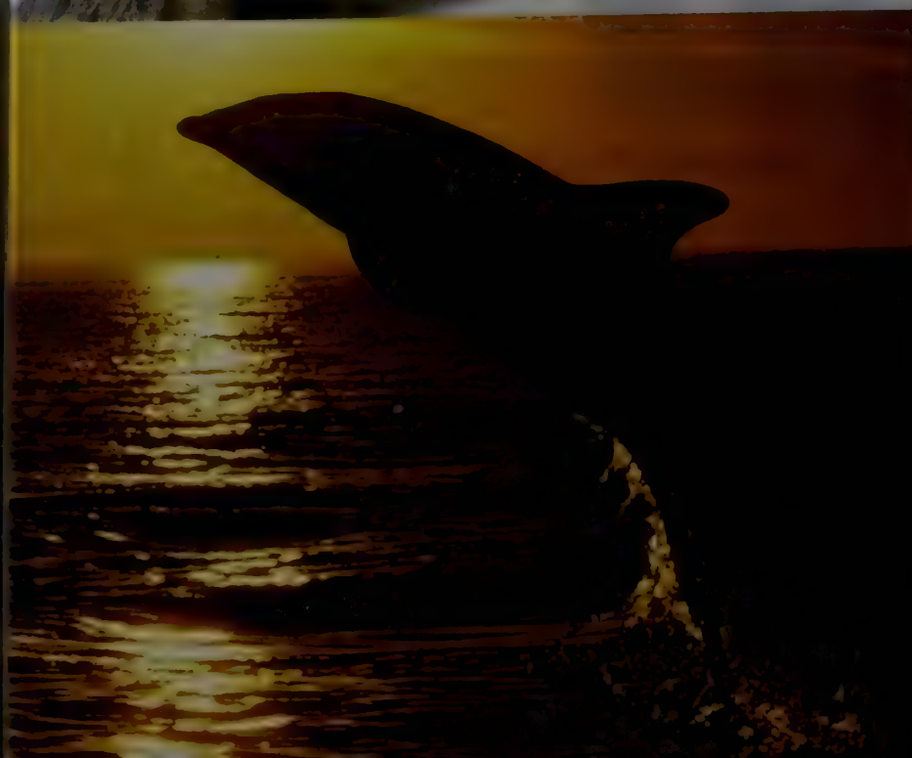
Unfortunately, steel prices are still lousy. Steel quotes are down about $30 a ton from their levels a year ago to around $450, putting everyone in the business in the red. But USX is a low-cost producer, and a 10% price rise, Corry notes, could mean an operating profit of nearly half a billion dollars for USX, or $9 per steel share. "There is a lot of leverage on the upside," Corry says.

In order to help realize that leverage, USX's Corry has worked out a number of joint ventures, including one with Japan's Kobe Steel, which is half-owner of USX's huge old Lorain, Ohio plant.

More joint ventures could be in the cards to further scale back steel exposure. Is Corry edging the company out of the steel business? "We're not running away from steel," he says. "We're making it a better business."

With the new two-stock company, the market will be in a better position to judge just how Corry is doing. So far, pretty good.





A FEW COMPELLING REASONS FOR DOUBLE-HULLED OIL TANKERS.

Last year, Du Pont announced that its energy unit, Conoco, would pioneer the use of new double-hulled oil tankers to help safeguard the environment.

Estimates indicate that they'll cost 50 million dollars each—about 15% more than conventional oil tankers. And, they'll carry about 10% less oil.

But estimates also indicate they could eliminate or significantly reduce the damage from oil spills, saving thousands of sea birds, otters, sea lions, dolphins and other sea life.

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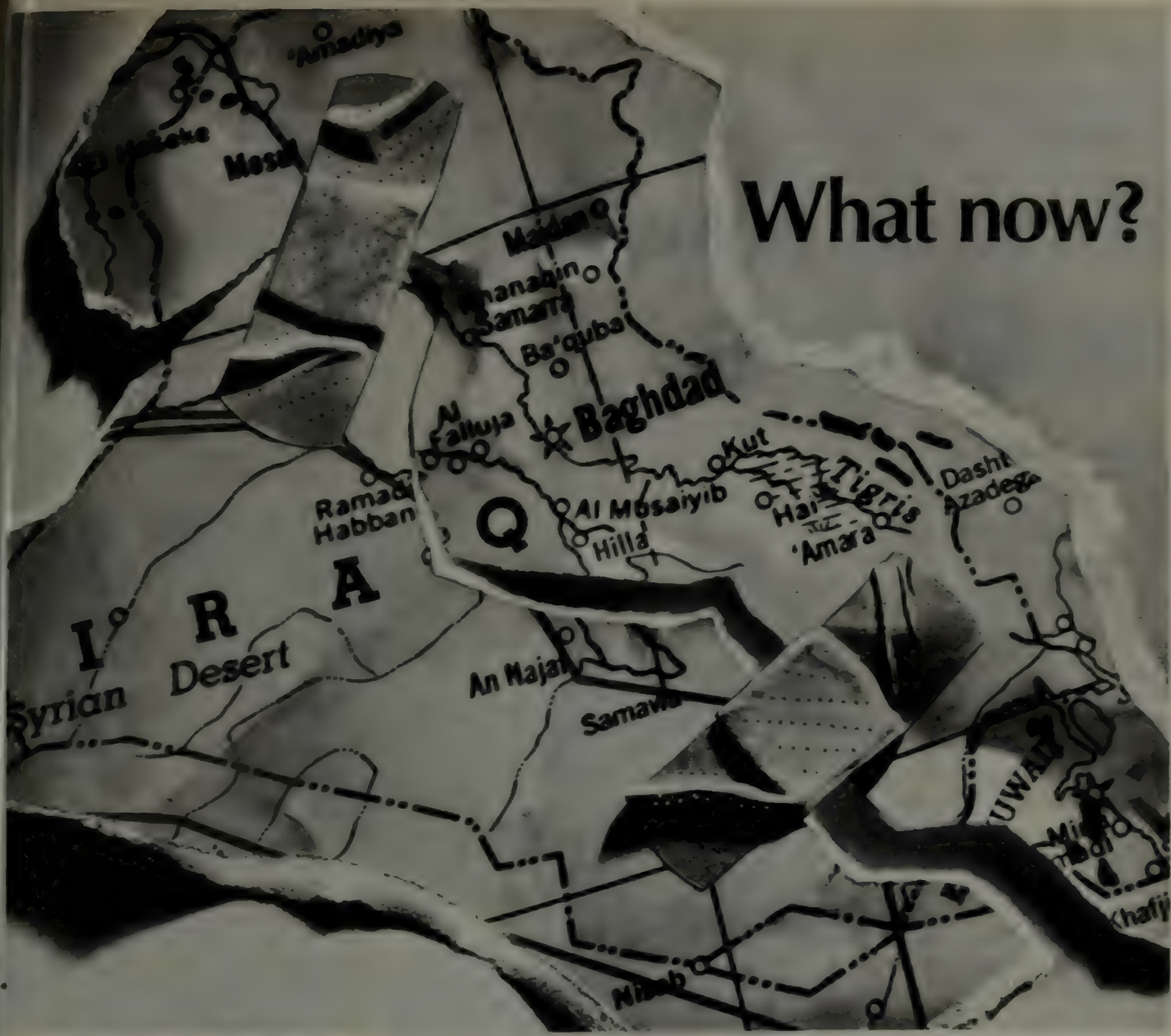

Allied forces led by the U.S. have seriously weakened the Iraqi army, humbled Saddam Hussein and handed Kuwait back to the Kuwaitis.

Does this mean peace at last in the region? Or has the war created new problems and responsibilities Americans need to face up to, such as the refugee issue?

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Charles Givens' books on financial advice are silly and superficial, but the man has something to teach us: There's no such thing as bad publicity.

How to market mediocrity

By Mary Beth Grover

EARLIER THIS YEAR Charles J. Givens' press agent tried to get his client a repeat appearance on CNN's immensely popular *Larry King Live*. He was told: "You've been on twice already; call us when you've got something new." Then, in August, the *Wall Street Journal* ran a front page story that was highly skeptical about the financial advice Givens has peddled so successfully for many years.

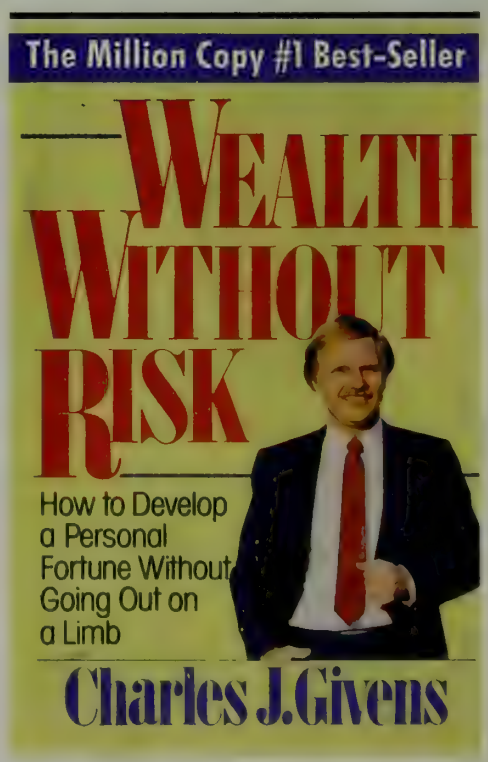
That did it. Ten days later the tall, blond, blue-eyed Givens was again displaying his charm to the 1 million people who watch *Larry King Live*. Givens skillfully countered the *Journal*'s criticism of him, and even got off a crack about how much more powerful than print TV was.

All of which shows there's really no such thing as bad publicity. A good salesman knows how to turn negatives into positives for his product. Chuck Givens is a master at using TV to that end.

Read one of Charles Givens' two books, and then stare in wonderment at the *New York Times* bestseller list. The books are full of advice that ranges from the trivial to the fatuous. Of the dozens of financial self-help volumes littering the shelves of a medium-size bookstore, these two—*Wealth Without Risk* and *Financial Self-Defense*—are among the least rewarding. Why is it, then, that the books are the bestselling of the genre, with over 2 million copies sold?

The answer is that while he's barely so-so as an adviser, Givens is a great marketer—of himself. Charles J. Givens has had some skillful book marketing departments behind him, some professional help with publicity and the benefit of a few lucky breaks. But the real credit for the bestsellerdom belongs to the author. Givens' career should be a case study in any business school marketing course.

First step to success as a financial author: Be personable. Smooth-talking Givens gives a good interview on television talk shows. He's a real master of the sound bite. Benjamin Graham, probably this century's most important financial author (*Securities Analysis* and *The Intelligent Investor*), died in 1976 relatively unknown outside of Wall Street. Graham didn't live long enough to make it onto the *Oprah Winfrey* show—on which Givens was a guest in December.



Charles Givens' bestseller

Reading without reward?

Next: Personalize. Inject your o life into your lectures. Givens' spiel much like that of the revivalist preac er who tells of his wayward youth, drinking and chasing women a then his reform. Givens' life sto begins with his birth in Decatur, 50 years ago to a middle-class fam which later went broke. The tale co tinues through his early successes business, his financial ruin at t hands of greedy, incompetent broke or insurance agents, and his subs quent enlightenment.

Finally: Look successful. Benjam Graham really flopped here. Graha did earn a fair amount of money fro his books and from his investment but he would never have made it *Lifestyles of the Rich and Famo* Contrast Givens, who tells his follo ers that his net worth is $110 millio If so, it is his genius at publicity, n his investment techniques, that a counts for much of it. Givens charg a basic fee of $399 for membership the Altamonte Springs, Fla.-base Charles J. Givens Organization.

"Everybody dreams of being ric some day," says Peter Ulmer, wh used to run wealth-creation semina for Givens. The Givens marketin capitalizes nicely on this yearnin with this brilliantly simple pitch: I a independently wealthy, and I a sharing the secrets of wealth with yo because you can be wealthy, too.

Givens learned the seminar busi ness at the feet of a master, Glen Turner. He signed up to sell Turner' Dare to Be Great motivational tape in Nashville in 1970. Turner is no serving a prison sentence for fraud i Arizona, but he was a giant of salesman. The appeal he used sound quite a bit like Givens': Poor bo makes good. Turner told followers how he was the son of a southern sharecropper turned millionaire. Giv ens calls the $5,000 he invested wit Turner "the best investment I ever made in my life . . . I learned selling was a science."

For technical help, Givens turned to the Los Angeles, Calif.-based Michael Baybak & Co., a public relations firm. Givens got his big break when Baybak got him on the *Today* show on July 30, 1985. Even then Givens was looking for angles. He recalls: "Let's

at maybe they [Baybak] booked on something like the *Today* , I'd pay them $5,000, no hly retainer."

day had Givens back the very day because, as Bryant Gumbel his viewers, "He had so many ideas that our phones rang off ook." *Today* had Givens back —for three days in a row—that ber.

at's when Simon & Schuster's eric Hills "discovered" Givens. ought to myself, 'When have you seen any author on the *Today* three days in a row?'—and this didn't even have a book." Hills e Givens a $100,000 advance.

His book *Wealth Without Risk, w to Make a Personal Fortune thout Going Out on a Limb,* has d 1.4 million copies and has been the bestseller list (in the how-to egory) for 117 weeks. Givens' cur- t press agents, Planned Television ts, say Givens is under a $3 million- s contract to write three more oks for Simon & Schuster.

Editor Hills doesn't figure on los- any money. The second book, *nancial Self-Defense,* so far has sold 0,000 copies. Explains Hills, America has always been in love with Horatio Alger story, from Benjamin anklin on up to Charles J. Givens. 's part of the American dream."

A dream told in ways that society's losers can relate to. In *Wealth Without Risk,* Givens claims that he was penniless as a youngster after his father died. Ah, but there is hope. At 25, he writes, he "was a millionaire for the first time through the creation of a Nashville music business conglomerate." But the woods are full of predators. He was broke again at 26 because of his no-good insurance agent. Indomitable, he worked his way back. Three years later he claims he was again rich as an executive of Genesco, the Nashville apparel and shoe manufacturer. A "vested, fast-talking stockbroker" lost Givens' second fortune.

Lifestyles of the Rich and Famous

ns with wife Adena

ng it up for Lifestyles of the Rich and Famous.

Not mentioned in the book: another sort of adversity that Givens had to overcome. He was indicted in Nashville in 1969 on a charge of receiving and selling a stolen car; after a trial ended in a hung jury, the charge was dismissed.

The executive suite at Genesco? The company says he was a manager in the computer department.

You might think the huge sales of the $22 *Wealth Without Risk* would undercut sales of the very similar home-study course in finance that is the principal attraction of the $399 membership in Givens' organization. Quite the contrary. Since he put out the book, Givens says, he has signed up another 150,000 members. And now he offers a more advanced membership for $900.

Among the rewards of membership are a slew of audio and videotapes and Givens' monthly newsletter. A "$145 value," it imparts such expert financial advice as a two-part series on "How I Married a Millionaire," written by Givens' second wife. Free advanced workshops, another reward, "turned out to be further sales pitches," says Eric Rems, a mechanical engineer based in Franklin Park, Ill. A four-day real estate course costs $1,695.

Five states have cited Givens or related entities for various securities or insurance violations. The North Dakota securities commissioner and several other states are investigating some $40 million worth of private real estate limited partnerships Givens' brokerage firm sold to members starting in the early 1980s. The SEC is investigating as well.

Unfazed, Givens has moved into money management, raking in $77 million from members since last October. The money management clients pay 2½% a year for market timing advice. The advice is based on an apparently mechanical formula that involves moving into stock, bond or money market mutual funds according to Givens' "money movement strategy," whose signals are keyed to fluctuations in the prime rate. The chief money manager is Tom Breiter, an ex-broker for penny-stock peddler Blinder, Robinson.

The entry-level seminars are so successful that Givens doesn't deliver them anymore; he has a stable of commissioned lecturers to do that. Givens prefers conducting $700, three-day SuperSelf/Alpha Mind Power seminars. Here members can discover the power to be "10 feet tall and bulletproof."

The folks who pay Chuck Givens big amounts for banal advice could just go out and buy Ben Graham's classic *Securities Analysis* for $53. If they read Graham carefully, they'll learn the techniques that made Warren Buffett and lots of other people rich. But you have to work at reading Graham, and you'll have to seek out the book. That nice chap Chuck Givens is right there on TV talking so earnestly. . . .

Presentation software jazzes up corporate slide shows. Aldus Corp. hopes it will do the same for its growth.

Visual persuasion

By Kathleen K. Wiegner

SEATTLE-BASED Aldus Corp. was one of the prime movers—and prime beneficiaries—of the desktop publishing movement that was set in motion seven years ago by the introduction of the Apple Macintosh. Aldus' flagship PageMaker software program let Mac owners turn their computer screens into electronic pasteup boards, creating professional-quality layouts for newsletters, pamphlets, brochures and the like. Last year Aldus' revenues hit $135 million, 66% of it from PageMaker (the rest comes from other graphics products like FreeHand, a drawing program, and PrePrint, for four-color separations). PageMaker has sold over 794,000 copies at $795 (list) each in 17 languages.

But until very recently PageMaker's growth had been slowing. Unit shipments grew a relatively modest 14% last year. PageMaker has been squeezed both at the low end by newer word processing packages like Microsoft's Word for Windows ($495) and at the high end by Quark's Quark XPress, which has been a hit with large magazines.

To put Aldus back onto a higher growth track, the company's president and cofounder, Paul Brainerd, 43, has been increasing Aldus' commitment to a new category of software called presentation software; its market is estimated to grow 23% this year, to 1.39 million units shipped, according to Dataquest, the San Jose, Calif.-based market consultant.

This software enables business people to produce snazzy overhead projector slides, 35mm slides, on-screen presentations and printed handouts. These programs, which can merge text and scanned-in graphics and photographs, have been around on both Mac and IBM-compatible machines for a few years. Aldus has sold a presentation software product, Persuasion, for the Mac since 1988.

Gary Benson

Aldus President Paul Brainerd

Building more than a one-hit company.

But with the introduction of Microsoft's new version of Windows earlier this year, presentations and fancy graphics of all kinds are now easier to create on an IBM-compatible PC. This opens up a big new market. Windows 3.0 has already given Aldus a second wind: Sales of new Windows versions of Persuasion and PageMaker explain Aldus' 33% increase in revenues and a 31% increase in earnings in the quarter ended June 28.

Brainerd knows his way around the printing business. Formerly an ink-stained wretch himself, he earned a graduate degree in journalism from the University of Minnesota and worked on the production side at the *Minneapolis Star & Tribune* until 1980, when he joined Atex, a manufacturer of computer-based publishing equipment. When Eastman Kodak bought Atex in 1983, it decided to close the Redmond, Wash. plant where Brainerd was working. Brainerd, a native of Oregon, decided to stay in the Northwest and, with five other Atex employees, founded Aldus. Brainerd put up $100,000 he got from cashing in his Atex stock. Aldus was named for the 15th-century Venetian who invented italic type.

By 1989 Aldus' growth was sl ing, and Brainerd realized it was t to leave daily management to ot while he concentrated on crea new products. He recruited seaso managers, freeing him to come with ways to expand Aldus's pro offerings and show that Aldus was just another "one-hit" company.

Persuasion is up against some sh new products, among them Chari from Micrografx and Hollyw from IBM. Software Publishing's H vard Graphics and Lotus Freela the top sellers on DOS machines, about to release Windows versio Microsoft's Powerpoint, the lea on Macs, is already out in a Windo version. In late August, Aldus nounced an aggressive trade-up p gram: Anyone turning in an eligi version of competing DOS- and W dows-based presentation graph programs would get a copy of Persu sion 2.0 for Windows for only $99

Reviewers give Aldus' new and i proved $495 Persuasion package hi marks because of its many featur including a built-in outliner, exte sive control over color and spec effects, a clip-art library, and a vari of templates to help novices with graphics sense. Persuasion also has t potential to become an entry-le program for people wanting to dev op multimedia presentations—th which add sound and full-motion vi eo to a presentation package.

Brainerd has been on something an acquisition spree. Last year he pa $26 million in stock for Silicon Bea Software in San Diego; it makes lo er-priced entry-level graphics, mul media and publishing software. Th acquisition gives Aldus a Macinto product to sell to graphics novice Brainerd has also bought Photostyle an electronic image processing pr gram for Windows.

Do the acquisitions mean Aldu 200-person development staff slacking off? Not at all, says Brainer "We have to do acquisitions as well internal development to grow as fa as we want to." With his 22% owne ship of Aldus worth $120 millio Brainerd doesn't need to work, but h does want to see the company h created survive the tough new compe tition. So far he's doing an excellen job. ■

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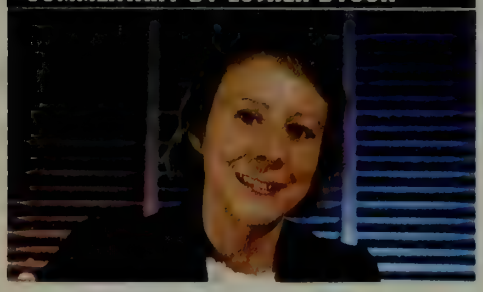
Looking backward: 2001

COMMENTARY BY ESTHER DYSON



Esther Dyson is editor and publisher of the newsletter *Release 1.0.*

Last month, during all the hullabaloo over the tenth anniversary of the IBM PC, my computer gave a strange blink and produced the following document. I don't know what the engineers did when they were upgrading my office network, but it seems that they captured a file out of a time machine—a speech delivered in the year 2001 by the chairman of something called AcmeNet. AcmeNet is evidently a federation of information industry suppliers, including software, hardware and database vendors and operators of electronic mail networks.

Greetings, ladies, gentlemen and computers. It is a tribute to the success of AcmeNet as we approach the tenth anniversary of our founding that I can speak to all of you electronically. We expect 10,000 people—plus another 3,000 information agents—at our convention this week, but no one is attending in person.

Our federation began in November 1991—interestingly enough, about the same time that the IBM Personal Computer was celebrating its tenth anniversary. Will we be as obsolete by our twentieth year as the PC is now? I think not. Our concept—that success in the computer industry belongs to consortia of smaller companies, not to the corporate monoliths of yesteryear—seems as valid today as it was in the 1990s.

There is precedent for what has happened to our industry. Those of you old enough to remember know that there was a time when the king of retailing was the downtown department store—the Macy's or Gimbel's, the giant store with everything imaginable under one roof. The world changed, and the department stores were displaced by malls. Shoppers preferred to get their shoes from one store, their toys from another, their furniture from a third. The boutiques benefited from their close proximity to one another within a single mall—a consortium, that is—but they also benefited from the vitality and innovation that go with smallness and competition.

The era of consortia in the computer industry got under way not long after the conquest of department stores by the malls. For a while, the most talked-about alliance was one of two giants, Apple and IBM. They teamed up originally to combine IBM's chip-designing capabilities and market presence with Apple's software friendliness. By 1995 they had combined IBM's Profs electronic mail network and Apple's AppleLink into a giant networking operation that is our biggest competitor today, but not a very effective one. IBM found its true role as a systems integrator and consulting firm, installing computers designed by Apple and built mostly in Asia. Apple, meanwhile, acquired Cray Research in 1994 and then IBM in 1997. The resulting monolith, Applem, manufactured its last piece of hardware the following year—a fine collector's item, but the customer, the Soviet Unit *(sic)*, was by then too small to use it.

Applem's recognition of the market for networking gave us both legitimacy and a competitor. But there was a big difference. Applem was a giant company trying to think small; our AcmeNet was a federation of smallish companies delivering global systems—primarily, network services.

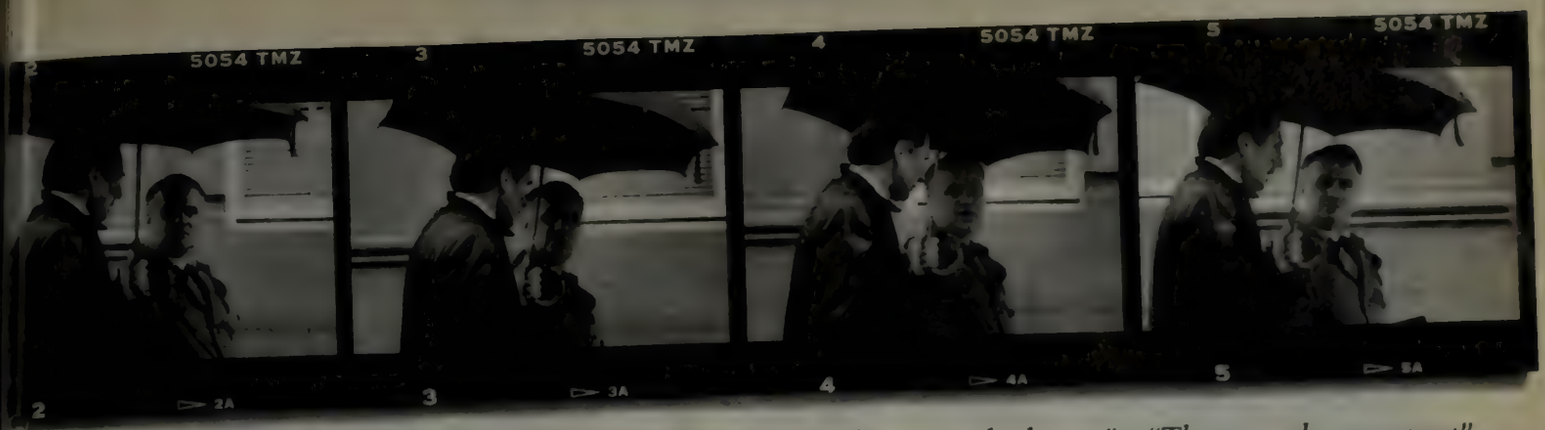
Other companies also teamed. In 1996 there was the trend-setting four-way Borland-Novell/DRI-Quarterdeck-Compaq merger, representing the past standard based on the ancient IBM PC. Note that IBM itself was only peripherally involved. Note that it missed much. The PC end of the business is a tiny niche market today, mostly selling replacement parts to users with older systems.

The independent-minded Microsoft was left out of all these merger and looser federations. How did it survive? It got out of computers and into real software—information publishing, that is. Bill Gates bought up the electronic rights to as many information sources as he could lay hands on—encyclopedias, artwork, novels, interactive movies, databases.

And how did our AcmeNet thrive in this environment? By fostering a healthy dose of competition among our own members. We are an electronic mall. A big mall has five stores selling shoes, three selling toys. They compete with one another, but the fact that they are all there, with slightly different merchandise, helps draw picky shoppers to the mall—and electronic shoppers to us.

In the computer business this style of competitive cooperation was advanced by Andersen Consulting, the computer consultant. A corporation building a network of 3,000 computers could go to Andersen for an unbiased selection of the best components—file servers from this vendor, printers from that one, E-mail software from another. These suppliers compete with one another, but they also must cooperate to a degree and of course cooperate with Andersen. As you know, former Andersen consultants are now the largest single member group in AcmeNet.

Where do we go from here? As chairman of the AcmeNet federation, I am both sad and proud to tell you that I am starting a new operation. We are getting too large and successful and the only answer is to launch a competitive consortium—a new mall across the street, as it were. I look forward to working with you again and to striving to win your business as you will strive to win the right to work within my new federation. ■



ow's the new proposal?" *"Finished."* "C'mon, the research alone..." *"That was the easy part."*

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The silent majority of the brain's cells are glia. A belated effort to understand what they do may lead to treatments for stroke, Alzheimer's and AIDS victims.

Smart glue

"HAVE YOU EVER seen fresh brain?" asks neurologist Jerry Silver of Case Western Reserve University in Cleveland. "It is a little more dense than water but less dense than Jell-O. It has no connective tissue. The brain is nerve cells, and outnumbering them eight or ten to one are glia. They are the 'connective tissue' of the brain."

If you haven't heard of glia, don't worry. When two prominent neuroscientists proposed an article to *Scientific American* two years ago on star-shaped cells called astrocytes, the most common type of glia, they were referred to the editor who handles astrophysics instead of brain research.

The name glia comes from the Greek word for glue, which is an accurate, if incomplete, description of what these cells do. Until very recently, glia were thought of as inert, spongelike cells that provide the brain what little structural support it has. By manufacturing the insulation that covers the delicate nerve projections called axons, the glia give the brain's white matter its color.

But during the last decade or so researchers began uncovering evidence that the glia play a critical role in the development and healthy functioning of the brain. Glia are now thought to be responsible for everything from promoting nerve cell growth to maintaining the proper electrical-chemical environment in the synapses, the tiny spaces between neurons. They also play a role in degenerative brain diseases, from Alzheimer's to multiple sclerosis and Parkinson's. Nobody's making money from glia yet, but the race is on to find drugs and procedures based on them.

In short, researchers now believe the brain consists of two immense networks: one composed of neurons, over which sensory and motor information from around the body is transmitted and processed, and a second made up of glial cells, which monitors the first one and intervenes in various ways to keep it functioning properly.

The holy grail for neuroscientists is regenerating nerve fibers. If they could do this, they could reverse spinal cord injuries and degenerative brain disorders. Regenerating nerve fibers has so far been impossible in the human central nervous system, although breakthroughs have been made in rats. "If you take an eye out of a fish, it will completely regrow the eye and the optic nerve, and the fish will see again," says scientist Silver. "You can completely sever the spinal cord of a newt or salamander, and in six weeks it will be swimming around as normal as ever. They can do it. Why can't we?"

The answer has to do with glia. When neurons in the central nervous system are damaged—as the result of a stroke, for example, or a car accident—the astrocytes *(see illustration, opposite)* react by instantly walling off the site of injury with scar tissue. These scars limit brain damage during disasters. But they also produce chemicals that impede nerve growth.

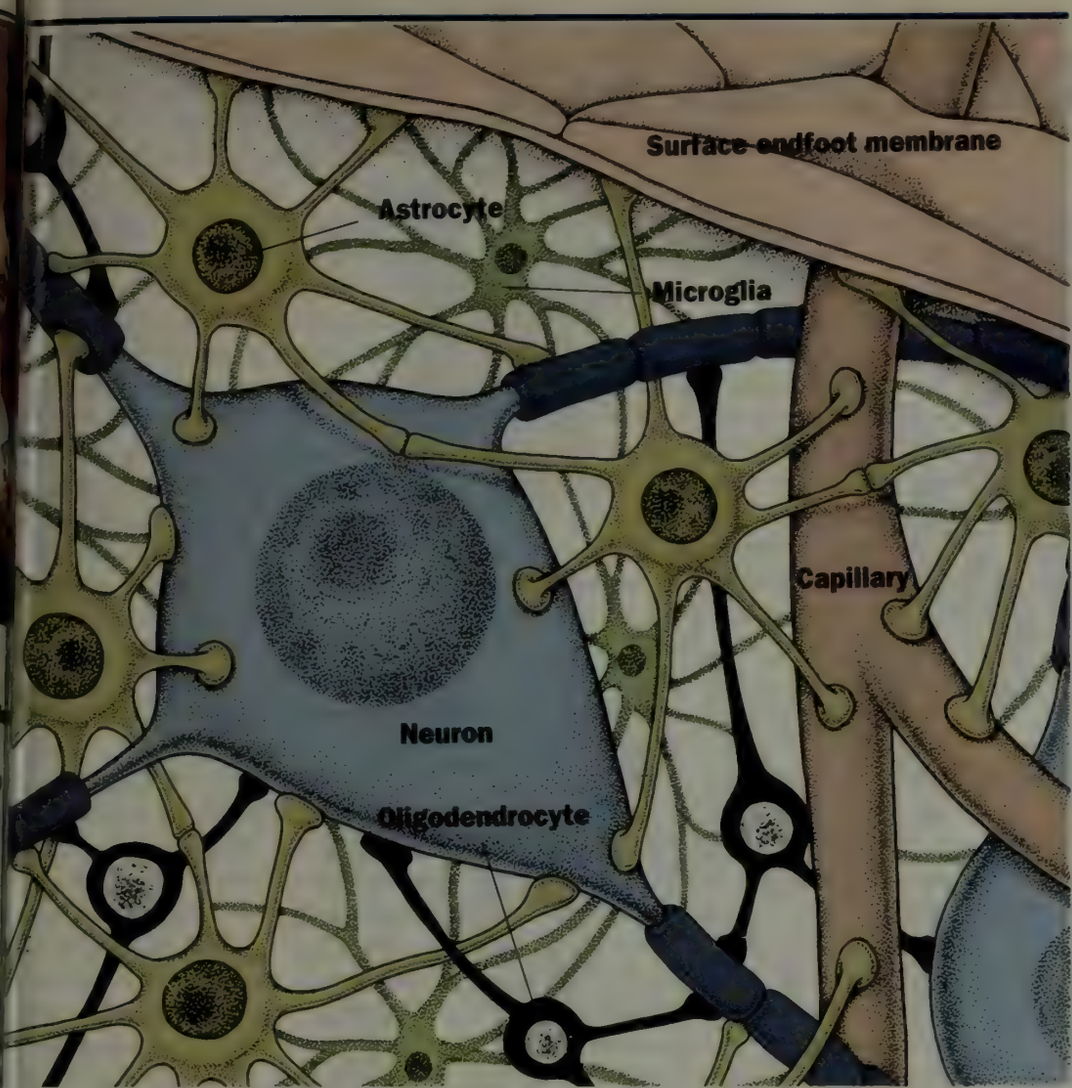
A few years ago Silver undertook this strange experiment: He plucked astrocytes from rat embryos and transplanted them into adult rats in which the sensory nerves leading from the legs were crushed at their spinal cord roots. A fraction of the rats were able to surmount the scar barrier and regrow the severed nerves directly into the spinal cord. It was the first time any regeneration of the sensory nerves had been achieved into the central nervous system of a mammal. After this success, some venture capitalists formed Gliatech Inc. in Cleveland to commercialize Silver's glial cell research.

Gliatech's Silver and Oesterling
"You can completely sever the spinal cord of a newt or salamand and in six weeks it will be swimming around as normal as ever. They can do it. Why can't we?"

Nerve regeneration is still a lo way off. But Gliatech has found more immediate application for research on nerve cell scars. Excess scarring is a serious problem in vario types of surgery, such as back surge after which muscle, nerves and sk can fuse together, causing pain numbness. Cardiac adhesions, which the heart becomes attached t lung or the chest wall following ope heart surgery, make reoperatin which is necessary in about a third bypass patients, extremely risky.

With the help of Silver, Gliatech h come up with a far more potent ve sion of a cell growth inhibitor it isola ed from astrocytes. It can even used to prevent unwanted scar tissu from forming. So far the compour has been used successfully in rats ar rabbits, and the firm hopes to beg testing on humans in about a yea "Surgeons tell us that if they ha something to prevent the scar, they be interested in it," says Thomas Oe terling, the pharmaceutical chemisti Ph.D. who is president of privatel held Gliatech.

There may be other ways to reger erate nerve cells. In the peripher nervous system, in which nerve cable connect sensory and motor nerv



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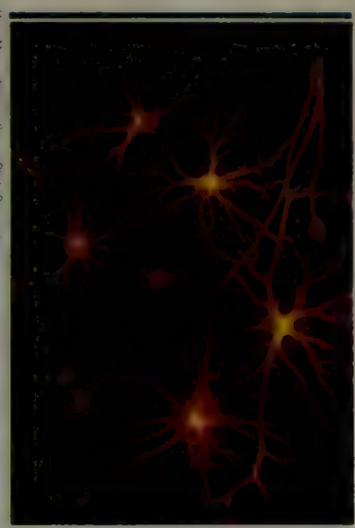

The brain consists of neurons and glial cells. The glial cells in the brain section are star-shaped astrocytes (also seen fluorescing in the photomicrograph above); oligodendrocytes; and microglia. Astrocytes keep neuronal pathways clear of excess chemicals and react to injury by walling off damaged neurons with scar tissue. Oligodendrocytes make the hot-dog-like insulation that wraps neuronal axons. Microglia are involved in the body's immune response.

dings from around the body to the inal cord, nerve regeneration regu- ly occurs, in part thanks to a differ- t subclass of glia called Schwann lls. Richard Bunge, a doctor at the niversity of Miami School of Medi- ne, has used transplanted Schwann lls to stimulate nerve growth within e spinal cord of a rat. But simply rowing nerve fibers isn't enough. he nerves have to plug themselves to the right connections in the spi- al cord. "We still need to see if they member their addresses," says unge, whose work at the Miami roject to Cure Paralysis is sponsored part by Gliatech.

So far, Gliatech is the only company ocused specifically on glial cells, but esearch is going on elsewhere as well. o-called neurotrophic growth fac- ors, which promote nerve growth, re being developed by other drug ompanies ranging from publicly held ephalon to Athena Neurosciences, a tartup whose founding scientist is a Iarvard neurologist.

The glial cells nurture neurons, but they can also turn against them with a destructive vengeance. Healthy oligodendrocytes, a type of glial cell, keep neuronal axons tightly wrapped with a fatty insulation called myelin. But when these oligodendrocytes are damaged, they are unable to repair damaged or missing myelin. This is believed to be a key step in the chain of events that ends in multiple sclerosis. Likewise, in the autopsied brains of Alzheimer's patients, the telltale clumps of amyloid deposits that turn healthy neurons into a hideous tangle of unusable circuits are filled with astrocytic scar tissue.

Why does the brain turn on itself? At Baylor College of Medicine in Houston, Dr. Dana Giulian, a neurologist, thinks the answer has to do with one type of glial cell, microglia, which makes up the brain's immune system. Giulian recently studied cases of AIDS-related dementia. More than 60% of AIDS patients suffer brain degeneration, ranging from forgetfulness all the way to Alzheimer's-type dementia. Yet when these patients are autopsied, their neurons show no sign of being infected by the virus that causes AIDS. The only brain cells that are infected are microglia, which, once infected, release neuron-destroying toxins.

Giulian hopes his research will lead to the use of new drugs to limit this kind of overreaction. Finding drugs that suppress the overreaction by microglia could reduce neuron destruction and help limit brain damage in stroke and brain injury patients. Likewise, drugs that imitate the toxins produced by microglia could one day be trained to zero in on unwanted cells, like those of brain tumors.

In 1976, when Silver was doing postdoctoral work at Harvard, colleagues said he was wasting his time studying glial cells. "People told me, 'They don't do anything, they're just a big sponge in the brain,'" says Silver. "Now, it's hard to think of a brain without glia." –G.S.

The shock market

COMMENTARY BY MICHAEL GIANTURCO

Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

FOR THE PAST few weeks two ferociously competing biotechnology companies, Centocor of Malvern, Pa. and Xoma Corp. of Berkeley, Calif., have focused the attention of stock market players, biotech analysts, scientists, the Food & Drug Administration and a San Francisco jury. Each company makes a new drug intended to rescue patients suffering from blood poisoning caused by so-called gram-negative bacteria ("gram" is a reference to a dye, not to weight)—a condition that can rapidly deteriorate into septic shock and death. Centocor and Xoma are in confrontation in the courts, in the markets, in the press and, most important, at the FDA, over their respective products.

At stake is, as one breathless analyst told me, "the chance to become another Amgen." Revenues from an approved septic shock drug could quickly amount to well over $1 billion annually. But there is no assurance that either drug will be approved by the FDA. This high degree of uncertainty is why so many speculators have been drawn to this hugely visible and controversial situation.

What is an informed investor to do? The stock market has already bet on a Xoma defeat and a Centocor victory. Centocor shares have gone from an October low of 15 to its current trading range centered on 35. Xoma shares have been knocked down from their March high of 33 to 17.

I think the market has overreacted. I'd sell Centocor short and/or buy Xoma. I believe the immediate outcome of the FDA conclusions—no matter who wins—will be to move Centocor's stock down and Xoma's up. Why? If the FDA does end up favoring Centocor, traders will want to take their profits on it. Simultaneously, short-sellers will take theirs by buying up Xoma. If the FDA decision favors Xoma, the stocks will go the same way (Xoma up, Centocor down), but with a more dramatic flourish.

Behind the stock market battle and the patent lawsuit are two fairly promising drugs that fight a deadly disease. Gram-negative septic shock is the thirteenth most common cause of death in the U.S., killing 70,000 Americans each year. The cause of the disease, gram-negative bacteria, can be knocked out by antibiotics, but they transport on their cell surfaces complex molecules called endotoxins. The endotoxins remain toxic to the body after the bacteria are dead. Endotoxins trigger a cascade of immune system responses that can lead to death. The condition most commonly occurs in already ill people who contract it in hospitals.

Both Centocor and Xoma have used cell fusion to create their products: monoclonal antibodies against the dangerous endotoxin molecules. An antibody clamps down on the endotoxin wherever it discovers it in the blood, effectively neutralizing the danger. Monoclonal antibodies are highly selective in action. They will attack the endotoxin for which they are targeted and nothing else. This makes monoclonal antibodies very attractive as a medicine, since side effects should be slight.

A difference between Centocor's drug, which is called Centoxin, and Xoma's, which is called E-5, is the original source of the antibody-making cell. Centocor used a human antibody-making cell. Xoma used one from a mouse. Shrill scientific arguments are now to be heard from both sides of the issue on this distinction between the two products. The q tion of the relative "mousiness" the medicine does indeed matter, most of the points go to Centoc but it is essentially a side issue investors.

Centocor, which has no U.S. ent on its drug, was sued for pa infringement by Xoma, which d Xoma's boosters hope the court uphold its broad patent, which co any monoclonal antibody acting the endotoxin at a specific site. M analysts concede the two products very similar, but it seems unlikely t are identical. A legal argument n centers on the precise site on endotoxin complex where each co pany's antibody grabs hold. Bu ruling on this technically intrigu issue should not matter to investc Nor should the initial outcome of patent suit.

Xoma has presented data to the F on two clinical trials. These results less impressive than those present by Centocor—but Centocor tested drug in only one clinical trial invo ing fewer patients. Will the FDA fav Centoxin, a medicine that appears be stronger on the basis of its sin clinical trial? Or will it favor E-5 more extensively tested medicine which the claimed results are consi erably more modest? There are oth possibilities: a dual approval, dela and requests for further data. B most people agree that the compa with a head start in this market w seize the domestic market.

I interviewed three pro-Centoc analysts, asking each what single fa they found most outstandingly favo able to Centoxin. Each analyst r sponded (unhesitatingly) with a di ferent salient fact. This suggests th no one fact decisively conveys the ca for Centocor. Their strongest poi seems to me to be a reported improv ment in patient mortality rates, claim that rests on the clinical tri result to be considered by the FDA. I this trial, Centoxin reportedly cut th mortality rate from 49% to 30%.

What really counts is the opinion the FDA on the merits of these tw drugs. The FDA will take up the matte in early September and could render decision in a few days. The stoc market, meanwhile, has alread placed its bets. ■

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A company of leaders.

Part electronics bazaar, part product showcase and test market, Tokyo's Akihabara district has become a prime tourist destination.

Techie heaven

By Andrew Tanzer

Photographs by Noboru Hashimoto/Sygma

Akihabara crams over 500 electronics stores in a half-mile area

Once a black market district, it's now the world's electronics capital.

"IF YOU GO to Macy's or any other large department store in the U.S., it seems like almost a Third World country by comparison. If you're into electronics, this place is heaven."

Gary Rinck, an intellectual-property attorney at the San Francisco law firm Morrison & Foerster, is agog in Akihabara, an entire Tokyo neighborhood devoted to gadgets, gizmos and geegaws. It is the most astonishing array of electronic products anywhere on earth.

Emulating its chip-crammed merchandise, Akihabara squeezes more than 500 stores—ranging from hole-in-the-wall parts stalls to seven-story electric appliance emporiums—into a maze of narrow streets and pedestrian alleys less than a half-mile square. Each weekday about 75,000 people stream through; on weekends and holidays, it's triple that number. In all, shoppers spend $4 billion to $5 billion a year in the district. What do they buy? Everything from "smart" rice cookers to notebook computers to flat-screen wall-hung TVs.

About 20% of the visitors are foreigners—more Koreans and Taiwanese than Westerners these days—and they are seeing and buying things that might not show up in their home countries for months or years, if ever. Japanese manufacturers of consumer electronics launch a lot of products in the local market that are never exported.

Larry and Alice Oberman, a New Jersey couple, are tourists in Tokyo. Braving the sweltering August heat, like toddlers in Disney World they stagger through Sato Musen, a consumer electronics outlet. While Larry gawks at a line of portable Omron medical contraptions—including one for taking blood pressure and another for administering a massage with electric impulses—Alice admires new household appliances. She fixes on some brightly colored refrigerat with multiple doors for separate c partments. "We don't have thi New Jersey," she says. "It looks m like furniture than a dumb refrig tor." Then her attention turns t display of sleek, cordless irons.

Like most American shoppers, Obermans are not interested in standard electronics gear like v cameras and stereos. Though mad Japan, they can be purchased m cheaply in Hong Kong, or even New York discount stores. The fav ite American buys, according to A habara merchants, are such items Sony's new passport-size 8mm ca corder featuring hi-fi sound anc higher-resolution picture (ab $1,100); a Toshiba pocket color that can be used in any coun ($900); a tiny JVC microcompone stereo system, bought for offi ($400); and several new, portal digital audiotape and compact d player models. (The DAT players r about $600, and the CD players av age $150.)

Not yet practical for Americans b still fascinating to see are such thin as Sony's Data Discman (list pri $420), a hand-held "electron book" that stores on tiny 3-inch dis books or encyclopedias that can displayed on a small screen. The ga get has been a big seller for over a ye in Japan but won't be available until least this fall in the U.S. because o lack of software in English. Also, the is a Sony palmtop computer that us fuzzy logic writing recognitic (FORBES, *May 13*) and starts at $5 (no English version available yet), ar a Fujitsu multimedia machine, whic runs from $2,200.

Situated on the site of what was black market during the U.S. occupa tion of Japan after the war, Akihaba is not pretty. Its garish signs, blastin stereos and pushy shopkeepers are far cry from the elegant, impeccab kept boutiques and department stor in, say, Tokyo's Ginza district.

Bargaining is the norm, very ur usual in Japan. Rule of thumb: Try f 30% off the list prices of older produ models, 10% to 15% off the latest.

Customers are sometimes secret videotaped by clever shopkeeper who sell the tapes to manufacturers t study consumer tastes. Other entre

eurs are even more covert: It is that blueprints of the internal kings of even the latest products be bought in Akihabara's back ets a week after the products are ched.

panese consumer electronics ers often market new products in Akihabara. Toshiba, for in- ce, takes the pulse of the throngs outheast Asian shoppers and sup- the information to its factories in region. Japanese electronics gi- also use the district as a showcase technologies of the future. For ance, in Yamagiwa, a multistory tronics emporium, Sony and Hi- hi are displaying early versions of a h-definition TV. Price: $30,000. rp is selling early versions of its l-hung flat-panel LCD TVs, which k like pictures on the wall, for 000. (There is no model for the S. market yet.)

Shopping—or grazing—in Akiha- a, which means "field of autumn ves," is easy. The district is about minutes by taxi from downtown tels such as the Imperial, or 4 min- s by train from Tokyo Station. ours are generally 10 a.m. to 7 or 30 p.m. Most major shops take dit cards and will deliver merchan- e to hotels or to Narita airport.

Once you arrive, the densely cked district can easily be walked on ot. There are more than a dozen ty-free electronics stores, or shops th duty-free floors, in Akihabara, cluding Laox, Yamagiwa, Hirose d Nishikawamusen. The duty-free ops won't save you much, if any, oney. But they do offer English- eaking personnel, English-lan- age product manuals and, most portant, made-for-export mer- andise designed for major overseas arkets.

The product specification differ- nces can be substantial: For instance, panese electrical products use a 00-volt current instead of 110 volts, nd Japan has different radio bands, V channel frequencies and a different elephone system.

Note: If you're shopping for a otebook computer, try T-Zone, an ight-floor store that is a leading re- ailer of Apple and IBM computers. he store sells Japanese- and Taiwan- se-made IBM-clone notebooks for about $2,100 and an IBM notebook with English and Japanese capability, priced at $1,900 (IBM has yet to launch its notebooks in the U.S.).

Shoppers should also stop by a few domestic-oriented electronics stores. These have a much better selection of merchandise, often better prices and more advanced models than in the duty-free stores. But English is seldom spoken.

Don't miss visiting the domestic appliance stores for a glimpse of some peculiarly Japanese products. For example, among the array of appliances using fuzzy logic controls there is the Toshiba IQ Fuzzy vacuum cleaner with power steering. One product that the Japanese may have trouble selling abroad, however, even to American tree huggers, is a Toto toilet that emits a stream of water and then air from a dryer to substitute for toilet paper. ■

New pocket-size color TVs are popular; some can be used in any country

But everyday electronics gear can be cheaper at your local discounter.

Camcorders are among the popular items for American shoppers

New this year: Sony's passport-size, hi-fi, 8mm camcorder (about $1,100).

For a fraction of the price and no insurance costs, some collectors are just as happy with reproductions as with original oils. Well, almost.

1-800-2-CANVAS

By Christie Brown

THERE WILL ALWAYS be art fanciers who think that a very close facsimile of the real thing is almost as good as the real McCoy.

"I hate phonies, but reproductions aren't phonies; you wouldn't refuse to read a book unless it was the original manuscript, would you?" argues Bernard Mondor, owner of the Pawtucket Red Sox, a triple-A baseball team. His Edgewood, R.I. home is a showcase for about 20 reproductions of famous paintings by Rembrandt, Homer, Monet, van Gogh, Renoir, Degas and more. Average cost: $350.

"Owning a million-dollar painting makes you a hotshot, but it doesn't mean a thing to me," snaps Nathan Ancell, the 83-year-old founder and now chairman emeritus of Ethan Allen Inc., which reproduces antique furniture. His sprawling New Rochelle, N.Y. house is crammed with beautiful antique furniture, scrimshaw, art deco bronzes and original paintings by such prominent 19th-century artists as Thomas Sully and William Cosgrove. These share the walls with 30 fake Renoirs, Monets and van Goghs.

Ancell likes the reproductions so much that they are sold in the 300 Ethan Allen outlets.

Arthur K. Salomon is a grandson of the founder of Salomon Brothers and an honorary managing director of the firm, and now director of sale Temco Inc., a building mainten firm in New York. His office w look like a corner of the Musée d say in Paris; the gold-framed re ductions of paintings by van Go Monet, Picasso, Pissarro and Lau cost $650 each.

The market for repros and copie famous oil paintings is a growing c fed by new technology, museu cooperation and simple economic

The simplest, and least expens reproductions are made by print the images on canvas. H.A. DeN zio Co. (1-800-2-CANVAS) cla to be the largest manufacturer of su reproductions. Based in Somersvi Conn., DeNunzio reproduces abo 600 paintings, from Old Masters Colonial primitives, priced betwe $200 and $500—with frame inclu ed. The "antique cracked finish" optional.

How are they made? A lithogra of a painting is transferred onto prepared canvas, then brushstrok are applied over a thin layer of acry to give the image texture. You do have to look too hard at the result know it is a repro, but the quality the image is certainly better than lithograph.

One worry DeNunzio does n have is licensing arrangements wi

Photographs by Todd Eberle

LEFT:
Nathan Ancell with a fake Renoir and an original by William Cosgrove
ABOVE:
His collection includes another fake Renoir, "Le Moulin de la Galette"
He loves to fake out his guests.

museums that own the originals. oesn't have to pay them royalties use it starts off with litho- hs—already licensed by the mu- ms—and merely transfers them to as. The lithos cost about $25 at museums or from big publish- houses like the New York Graphic iety, which has over 3,000 images s catalog.

eNunzio can also make canvas oductions of posters. Ball team er Mondor, for example, had a as copy made of a favorite Dali ter that friends sent him from Ger- ny. Cost? About $400.

eNunzio charges by the inch: d the height and the width of the ge, then multiply by $8.50.

Artagraph Reproduction Technol- Inc., based in Toronto, uses a re sophisticated technology—and duces higher-quality images.

The original painting is photo- phed and printed onto a soft, plas- like surface, which is then bonded a canvas. To give the painting more the texture of the original, a sili- ne mold is made of the exact brush- okes of the original painting, or a stom-made copy. The mold is then ssed onto the canvas. The copies— hich generally cost $495 to $1,000 iece—are good enough to fool lots unsuspecting amateurs.

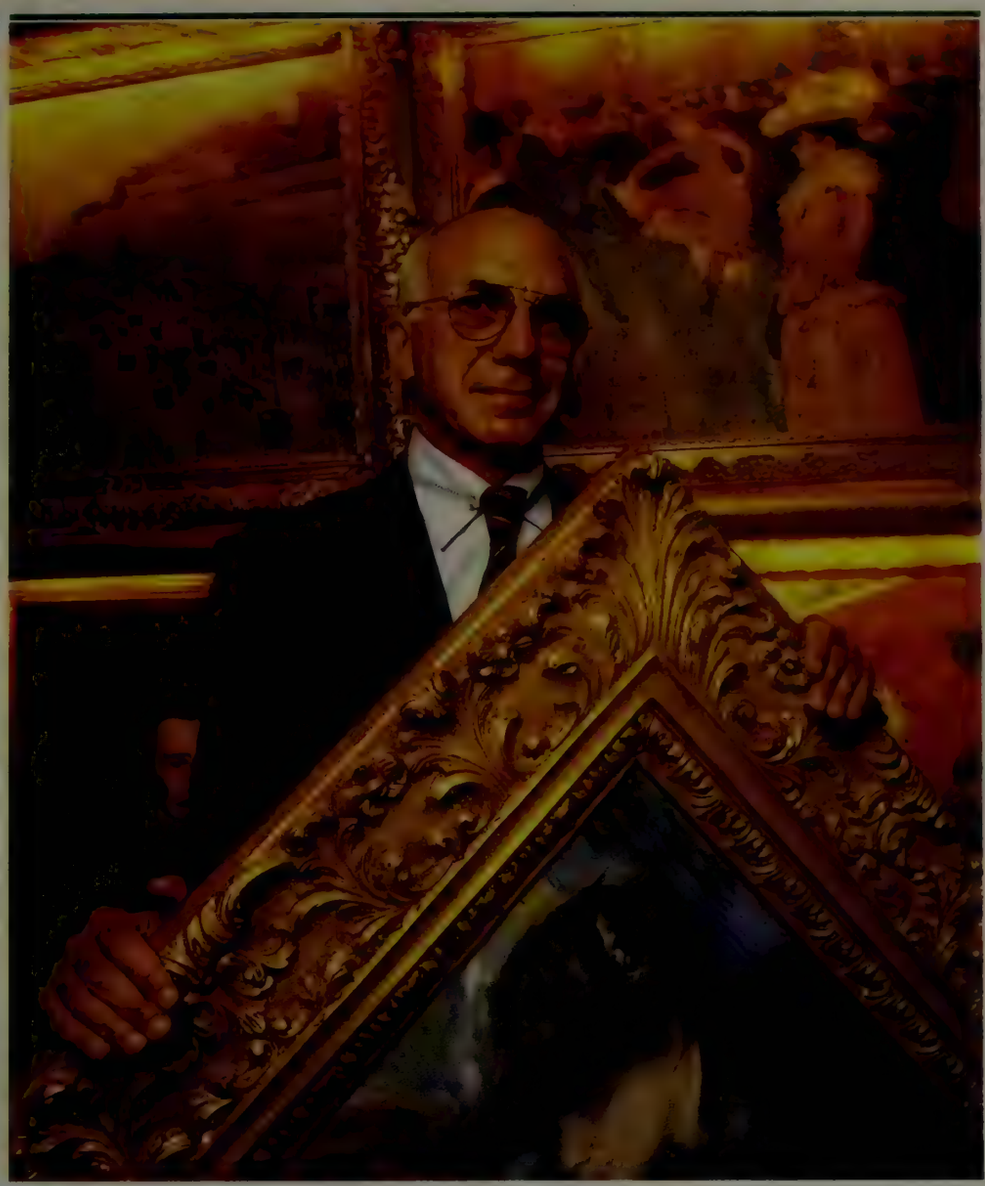
Ethan Allen's Ancell loves to tease use guests with his Artagraphs. "I ll them they'll never see anything e this out of the Louvre, and as they e goggling, I let on they are $700 productions," he says.

Artagraph (o-t-c, symbol XARTF) s licenses to copy over 200 famous intings now hanging in such muse- ns as the Hermitage, the Musée Orsay and London's Tate Gallery. he copies are sold through American xpress, Sharper Image and Ethan llen and other furniture stores.

Ivana Trump was so impressed that e ordered 1,400 Artagraphs, mostly enoirs and Monets, for the Plaza otel when it was redecorated two ears ago.

The high end of the reproduction eld is dominated by Heritage House alleries in Fort Lauderdale, Fla. It pecializes in custom copies painted y skilled European artists. Prices ange from $3,000 to $20,000, de- ending on size and complexity. Her-

Michael McLaughlin



Arthur K. Salomon amidst his gallery of repros

Van Goghs, Monets and others for about $650 a copy, frames included.

itage House has a small inventory, but most copies are done on commission.

Its clients include some big-name collectors who put their originals in a vault and then display the fakes, to save on insurance costs, maintenance and lost sleep. (The insurance savings will quickly pay for any handmade copies. A $500,000 painting can cost $5,000 a year to insure if displayed in one's home, for example. In a vault, it costs just $700.)

Other Heritage House customers are loath to tell friends they have disposed of their original paintings, so they hang fakes in their stead.

What happens if a reproduction is stolen? Unlike the replicas made by DeNunzio and Artagraph, which are clearly stamped on the back with the company names, those provided by Heritage House are not. The thief who steals one, though, is in for a surprise if he tries to sell it. Ultraviolet stamps or other markings that are publicized through the trade will quickly tip off any reputable dealer or gallery.

While the purists may sneer, people do get great pleasure from owning a good reproduction. "These copies let me enjoy great paintings in my own home with a glass of Chivas," says Bernard Mondor.

They also allow him to be something of an art patron, economy class. When one friend was slow to return Mondor's copy of "The Daughters of Edward D. Boit" by John Singer Sargent, Mondor simply made it a gift and bought another copy for himself. Cost: $385.

How do you deal with employees who can't do basic math or write a simple sentence? Here's how businesswoman Kathryn Hach dealt with the problem.

Eager pupils

By Dyan Machan

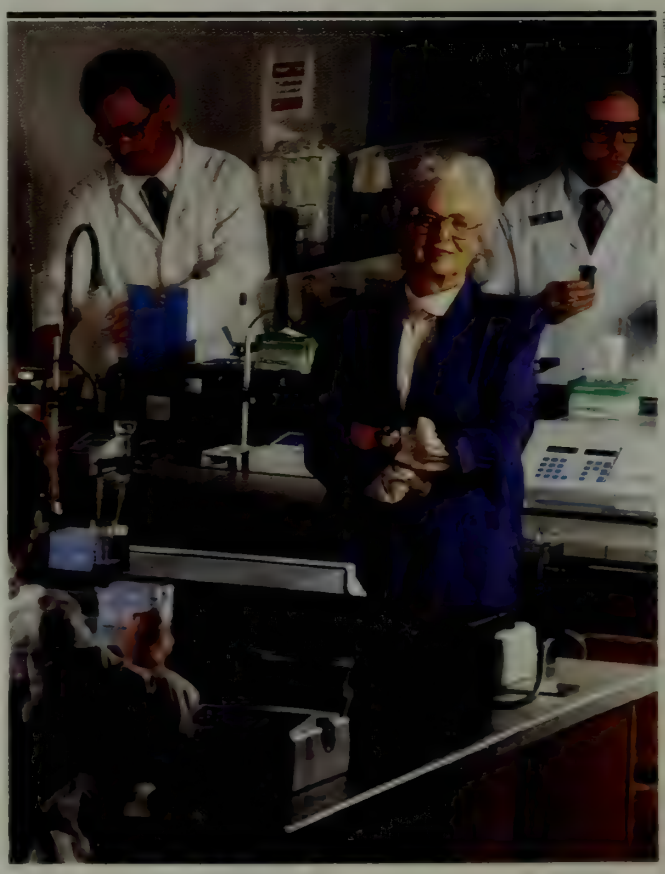
HERE'S AN INSPIRING story about how one little company, fed up with how badly schools were teaching basic reading and math skills, did something about it.

Kathryn (Kitty) Hach is chairman and chief executive of Hach Co., a Loveland, Colo. maker of water-analysis equipment. She complains: "Of 2,100 job applications we receive each year, 70% have to be thrown out because the applicants cannot write a complete sentence." But like many U.S. employers, Hach no longer has the luxury of simply rejecting illiterate and innumerate workers. The pool of entry-level workers has been shrinking nationally; employers have been forced to dig deeper in the barrel and recruit the less qualified. A number of big companies, among them Motorola and Aetna, have fairly extensive training programs.

Now, so does little Hach. The company offers its 820 employees courses in basic math and basic writing—covering everything from fractions to punctuation. It offers 42 courses in all, has three full-time teachers and taught 10,000 hours last year—all on company time. "Our employees are very eager to learn," says Kitty Hach. The name is pronounced "Hawk," which is appropriate for a 68-year-old grandmother who pilots her own corporate jet, a King Air C-90-A. "We have company planes, but I fly my own."

Hach Co.'s need to do something about its workers' basic skills began to become apparent in 1985. That was when the company put much greater demands on its production staff by adopting W. Edwards Deming's principles of quality control (FORBES, *May 27*) and introducing just-in-time inventory techniques.

The new inventory system required smaller production lots to be made and delivered quickly. This, in turn, meant workers had to do a number of different jobs. An assembly man, for example, also had to become proficient in quality control and parts procurement. Implementing Deming's theories also meant keeping sophisticated statistical charts and understanding basic algebra. Some of the company's new computer-controlled machinery required an understanding of trigonometry.



Hach Co. founder Kathryn Hach
Teaching employees the basics when high schools fail.

It soon became apparent that m of Hach Co.'s workers weren't up the new demands. As an experim in 1989 the company offered a b math class for one hour, twice a w for a month. Hach found that number of factory errors dropped s nificantly in the following mont Algebra II and trigonometry clas were added, at the workers' reques

As part of the new procedur production staff was asked to h write documents on operating pro dures. On several occasions emp ees asked the training director proofread their memos. This led t company to offer a course in ba writing skills. That was followed Hach's Business Writing course an most recently, Writing Skills for Se ond Language Employees, target at its foreign-born workers.

Kitty Hach's $72 million (sale Nasdaq-listed company now puts 9 of its $21 million payroll into trainin That includes Hach's tuition rein bursement program. The avera U.S. company puts just 1.4% of pa roll into training. Does it pay? A cording to the Alexandr Va.-based American Socie for Training & Developmen over time, employers reap pr ductivity increases more tha twice as high as the increase payroll costs.

Hach's shareholders hav no reason to complain. Hac Co. has posted record profit and sales for each of the las seven years, and the trend con tinues into this fiscal year. I addition, sales per employe one measure of productivity have expanded steadily in th last decade, to $90,000 in th year ending Apr. 30, fron $84,800 the year before. Em ployee turnover is down, to 7 from around 11% three years ago

Kitty Hach doesn't argu that all these improvement stemmed from her education al programs, but she has n doubt that the programs more than paid for themselves.

"This is the future," says Hach, "If people are educated it makes running a business that much easier."

Insuring a collection means understanding its uniqueness as well as adequately covering its value. Chubb has the expertise and capability to do both. Not only can Chubb shape a policy as distinctive as each collection, Chubb's highly trained experts work with collectors to reduce the chance of losses from ever occurring. And should there ever be a claim, Chubb is renowned for its responsive service.

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Chubb is proud to participate in "American Playhouse." Watch for it on PBS. Antiques courtesy of The Shelburne Museum, Shelburne, Vermont.

Captive market

CRIME PAYS for Florida-based Wackenhut Corp., a leader in security guard services with lucrative contracts from the U.S. Department of Energy, the State Department and NASA. On revenues of over $500 million, it earned $6.9 million last year ($1.80 a share) providing security services and running prison facilities for cities and states, guarding over 3,000 inmates in nine facilities.

Now Wackenhut is going overseas. In June it signed a deal with Australian corrections authorities to design, construct and run a 600-bed medium-security prison in the state of New South Wales. Annual revenues to Wackenhut and two Australian partners: nearly $13 million, with opportunities for more. In Europe Wackenhut is bidding on a contract to run a remand center (a detention facility for defendants awaiting trial) in the U.K.

"Since we've expanded our regular security services outside the country, there's no reason we can't do this as well," says George Wackenhut, 72, the company's founder.

Wackenhut is a former FBI agent. He says his firm now has outposts in more than 40 countries, giving it a head start over the competition in prison management.

What's next? "We're hot on the trail of something in Uruguay," says Wackenhut, who adds that the company is angling for privatized prison contracts in Canada, Mexico and Chile. In moving overseas, Wackenhut is making things tough for its closest rival, Nasdaq-traded Corrections Corp. of America, which built and designed the British facility both companies are bidding to manage. CCA is also involved in Australia, running a prison in Queensland, but lost out to Wackenhut in bidding for the New South Wales facility.

–JOEL MILLMAN

George Wackenhut of Wackenhut Corp.
Capturing profits in private prisons.

Courtroom doctor

M. LEE PEARCE lost his 1989 bid to take over American Medical International, the Dallas-based hospital chain (1990 revenues, $2.5 billion). But he has gotten handsome consolation: a $16 million settlement to drop a lawsuit alleging fraud in the 1989 leveraged buyout led by a group headed by Chicago's Pritzker family and ex-United Technologies boss Harry Gray. Pearce won $2.5 million in July in a settlement of a lawsuit against Harold Williams, a former SEC chairman who headed a committee of AMI directors that turned down Pearce's bid. In August, when AMI agreed to pay Pearce nearly $16 million, Williams got off the hook.

Acey Harper

Investor M. Lee Pearce
A fortune in health care and banking.

His $16 million courtroom winnings come on top of the $84 million profit Pearce made by selling his large personal stake in AMI to the successful bidders. His net worth today is comfortably above $200 million.

Pearce, who has both an M.D. and a law degree, isn't throwing his weight around. He drives around Miami in a ten-year-old Cadillac. His chief indulgence is his 12,000-bottle wine collection. "Compared with collecting art, wine is less expensive and a lot more enjoyable," he says.

Pearce is also collecting failed banks. In less than a year, out of the remains of busted thrifts and banks in south Florida, he's created a bank with $500 million in assets. That eased the pain of Pearce's $8 million loss as AmeriFirst Bank's largest shareholder when the feds took over the insolvent Miami S&L in March. –SETH LUBOVE

Silver lining?

HOWARD SILVERMAN, the 56-year-old son of Polish immigrant parents, has built Gruntal & Co. into The Street's 14th-largest brokerage firm, with 90 brokers and 36 offices. He badly wants to move Gruntal further up the list. Problem is, while he's chief executive officer, he doesn't own Gruntal

den's mammoth insurance outfit, g-Hansa SPP Group, does.

verman sold Gruntal in August 7, right at the peak of the market, having built the firm up with a s of shrewdly timed acquisitions. 974, with brokerage house prices essed at the tail end of a bear ket, he bought rival Steiner, se & Co., doubling Gruntal's Within 18 months the Dow bed 65%, to pierce 1000.

e showed sharp timing again in 1983, when Gruntal—then a pri- partnership—sold 40% of its k to the public, at a peak of the ket for initial offerings. Silverman k out $3 million in cash and re- ed 15% of the stock.

year later the stock market hit a and Silverman snapped up anoth- val, Herzfeld & Stern, increasing ntal's size by 60%.

he 1987 sale of Gruntal was to me Insurance Co., a unit of Am- e Corp., for $100 million in n—2.2 times book value. Silver- n, who stayed on as chairman, ted $13 million in the sale. Two nths later the market crashed, on ck Monday.

AmBase, badly mismanaged, end- up selling Home Insurance and ntal to the Swedish insurance gi- . Now Silverman wants to buy the mpany back. "There is absolutely synergy between our business and t of our property and casualty par- ," he grumbles.

Trygg-Hansa will not reveal its ns for Gruntal, but investors would well to pay attention to Silver- n's timing. Given his record for owing when to buy and when to l, it's significant that he wants to y now. It could mean lots more osperity ahead for the retail broker- e business and for the stock market.

–MATTHEW SCHIFRIN

ave the cat

OST OF the world's automakers are rting. But it's been a beastly couple years for William Hayden, who came chairman of Jaguar when rd Motor Co. bought it in late 989 for $2.5 billion.

Hayden, 61, the British-born for- er boss of European manufacturing r Ford, had a sick cat on his hands. He quickly made some alarming discoveries: Jaguar's main factory at Coventry was the worst Hayden had ever seen outside of Gorky. Labor practices were horrible: Production quotas let workers leave hours early and there was an average of one work stoppage per day.

Slim, bespectacled, golden-haired, Hayden has shown he is tough as nails by ripping up Jaguar's work rules. "We eliminated all restrictive practices in one negotiation" last fall, he says. Plant efficiency is up 18% so far in 1991, and nearly 2,000 of 12,000 workers have been let go, with more cuts likely.

But while Hayden addressed manufacturing problems, sales collapsed. In the U.S., Jaguar's biggest and most profitable market, sales are off 52% from last year, thanks to recession, a new luxury tax, alleged poor quality and new competitors such as Lexus and Infiniti. Quality today is the best in Jaguar history, Hayden vows, but the word takes time to spread.

To stay in the increasingly competitive U.S. market, Jaguar needs new models. Its XJS line—the stunning coupe and convertible—goes back to 1975. Jaguar has nothing comparable to the midlevel luxury models exemplified by the BMW 5 series. Brand-new Jaguar models are probably four or five years away.

Jaguar's worldwide volume peaked near 50,000 cars in 1988, and this year it looks like 28,000. So Ford is a long way from justifying its huge investment. But Ford, which has made up to $1 billion a year in gross profits on its Lincoln Town Car, wants the extra luxury nameplate that Jaguar brings. Still, Hayden says, he sometimes thinks he'd like to call it quits. His boss, Ford Chairman Harold Poling, says no, not until Jaguar is back in the black. With Ford solidly behind it and with the higher end of the automobile market still promising, eventual profitability isn't an "if" for Jaguar. It's a "when."–JERRY FLINT

Stan Godlewski

Jaguar Chairman William Hayden
Will the cat roar again?

Nina Barnett

Gruntal & Co. Chief Executive Howard Silverman
An ace market timer wants to buy.

(Continued from p. 23)

privatizing the very same companies he nationalized as President in the mid-1970s. "We are committed to major reforms," he told us. "We want to become part of the global economy." Rising stock prices and the flotation of new issues have raised the value of Venezuela's publicly traded equities from $2 billion to $8 billion.

■ Argentine President Carlos Menem, a Peronist elected on a platform of big government spending and who, as a state governor, railed against private business and expanded the government sector, has begun his own ambitious program of privatization, tax reduction and simplification. He is also sweeping away trade barriers and is readying legislation to reform Argentina's straitjacket labor laws. "We're not stopping until we totally remake Argentina," Menem declared emphatically to our group.

■ Brazilian President Fernando Collor echoes his peers' commitment to the free market: "Our course is set." A few months ago he fired his finance minister because her erratic policies had lost the confidence of Brazil's business community and Brazil's creditors. He replaced her with highly respected Marcilio Moreira, who says he is working to "raise more revenues by reducing some [tax] rates" and by simplifying Brazil's Italianesque tax code.

In all three of the countries, income tax rates have been sharply reduced.

The economic ministers are even more committed than their bosses.

In Venezuela, Pedro Tinoco, president of the central bank, notes with a twinkle, "I drafted much of this free market legislation more than 30 years ago, when I was a private lawyer."

Argentine Finance Minister Domingo Cavallo is enthusiastically chopping away at tariffs and exchange controls: "We want to create an environment to attract capital. We're eliminating domestic taxes that acted as nontariff trade barriers." At our meeting, he openly prodded officials who showed recalcitrance about the government's free market program. (He also has a superb sense of humor: "We have to change budget directors every few months before they get a heart attack.")

Argentina's central bank, headed by Roque Fernandez, who reports to Cavallo, has instituted reforms reminiscent of currency boards once popular in a number of countries in the last century. No money is now printed in Argentina unless it is backed by dollars or gold. Result: Interest rates have fallen from over 200% a few months ago to less than 20%.

So dramatic has Argentina's progress been that the country will soon be floating two-year, dollar-denominated notes in the Eurodollar markets.

White House Photograph

U.S. business leaders and diplomats confer with Argentine officials: (l to r) Fred Smith, CEO, Federal Express; David Rockefeller, Chairman, Council of the Americas; Allen Paulson, CEO, Gulfstream Aerospace Corp.; Gary Jacobs, CEO, Laredo National Bank; MSF Jr; Robert Mosbacher, Secretary of Commerce; Vice President Dan Quayle; Terence A. Todman, U.S. Ambassador to Argentina.

Nor is Argentina merely privatizing state monopo The national telephone company, for instance, was in two. One spinoff has acted decisively in making i more efficient: In the first half of this year, it reporte times the profit of its counterpart.

Martinez de Hoz, a former Argentine Finance Mini who attempted to pull his country away from its econ ic disaster more than a decade ago (he once exclain "It's not enough to close down a railroad line; you h to tear up the track or the politicians will open it again."), thinks the reforms will stick: "People wan even if it means temporary discomfort. That's Menem changed. He sensed the mood was different.

The changes are already beginning to pay divider Argentina's state-owned oil company, YPF, now run Jose Estenssoro, a retired Hughes Tool Co. executive preparing to go public. It is shucking off unrela enterprises and cutting back its bloated payroll. Este soro proudly told u his progress: Dur the 1980s ann losses of $1 billion more were comm Last year the comp had an estimated pr of $80 million. (I cause of chaotic boo keeping, final numb won't be known fo while.) This year's b tom line should bl som to $300 milli and next year's $700 million, even oil prices stay flat. this, while at least o competitor, Exxon, complains YPF isn't charging mot ists enough for gasoline.

Telefonica, the Spanish telephone company that is new owner of the Argentine telephone spinoffs, sent o of its executives to run the outfit. He told United Tel com CEO William Esrey, "I've seen what's happened telephone systems after earthquakes, after floods and aft major fires. But none of that prepared me for what found in Argentina."

Of the old company's 45,000 employees, 850 we physicians, more than most hospitals require. Why all th doctors for a telephone company? No one knew. Anoth 1,000 or so employees simply did not exist. One popul scheme: A widow would be offered a deal that woul keep her dead husband's name on the payroll if she woul kick back a portion of his salary. She would end up wit more money than the pension would have given her, an the personnel officials would get richer.

Experts estimate that one-half of Argentina's electricit goes unpaid for because of meter tampering by bribe meter readers.

The Argentine government has reduced its payroll b 60,000 out of a million or so. Why so little outcry Another former finance minister explains, "Most of thes

ple had second and third jobs. They never did any k." The proof? "Some 10,000 civil servants were red new jobs in the tax collection department as an native to being let go. They were told that these ld be *real* jobs. Only 90 accepted."

enezuela has made privatizing its ports a high priori- Currently, work gangs of 11 men are paid to do the k of 3. (Labor laws ignore the container revolution.) the 3 workers assigned to the job don't do it. They paid so well they subcontract the work at lower wages thers.

enezuela, Argentina and Brazil all recognize the need laws to protect the integrity of intellectual property as patents, although Argentine and Brazilian officials ed that getting effective legislation through their gresses would not be easy. That's something new for ny Latin countries—learning to live with democracy.

Other heartening trends: These countries seem enthu- tic about creating common markets with their neigh- s. And all these governments vow to make it easier for ll businesses to set themselves up legally. Presently, it lmost impossible for tens of thousands of small busi- ses to meet regulatory rules. One American economic ert in Brazil estimates that about 60% of Brazil's nomy is "informal."

What is bringing about the 180-degree turn in Latin erica? Political and business leaders have been im- ssed by the success of Chile and of Spain, which erienced a boom under the free enterprise policies of nominally socialist Prime Minister, Felipe Gonzalez, d by the socialist failure in Eastern Europe and the iet Union. They have also been following the rapid nomic rise of South Korea and other Pacific Rim ions. And they're all aware of Mexico's new prosperi- thanks to Salinas' reforms.

A Brazilian businessman who runs a major glass com- ny gives a flavor of how inefficient was the old Latin tem of protectionism, cartels, monopolies and state- ned companies: "Our processes are as efficient and oductive as anyone's. But we get our raw materials m a state-owned company, which charges three times much as a private company would. The same thing plies with the transportation system. And real interest es are 25%; our cost of capital is killing us. That's why need to develop broader equity markets and to tap reign capital markets."

For once the United States is playing a constructive le. Latins note that not since John Kennedy has there en a President as interested in their region as George ush. Bush's free-trade-oriented Enterprise for the mericas Initiative was unveiled last summer, then was ickly drummed out by the Gulf crisis. But visits like uayle's, the President's own telephone diplomacy and e prospect of a U.S.-Mexico free trade agreement have nvinced Latins that past U.S. indifference is over. Kennedy's Alliance for Progress was government to overnment," notes David Rockefeller. "Bush's initiative ives the big role to the private sector."

Don't expect Latin America's metamorphosis to go moothly. The tug of the old regimes is still strong. Brazilian business leaders gleefully point out that some of the staunchest foes of opening up the Brazilian economy are multinational companies already ensconced there. "Look at the reaction of Volkswagen and Ford when Toyota started to explore a factory here," noted a top member of the Brazilian government. Another frequently cited example is IBM. (To be fair, although the same charge of obstructionism was leveled against IBM in Mexico, IBM eventually swung behind Salinas' free trade reforms.)

In Sao Paulo, Brazil's industrial center and home of 45% of the country's GNP, one didn't have to scratch business or political leaders very hard to get an earful of the old-time economic thinking. When they talked of liberalization, the emphasis was on the word "gradual." Other phrases: "safeguards for vulnerable industries"; "Free markets can't be an end in and of themselves; we have to think of the people"; "Legal equality [between Brazil and the United States] is not real equality. It's like a lightweight boxer fighting a heavyweight." We were hit repeatedly with complaints about the U.S.' tariffs on Brazilian orange juice.

Another difficulty is that the International Monetary Fund often confuses ends with means. It emphasizes balancing budgets even if it means governments' imposing higher taxes on already overtaxed economies. The IMF ignores the fact that sensible tax rates yield higher revenues because they don't stifle economic growth.

But if the U.S. continues to push for open trade (failure to get a free trade agreement with Mexico would be disastrous) and if we and Europe and Japan don't get caught in a protected recession, Latin America should boom, despite occasional backtracking.

Pablo Villares, a major Brazilian industrialist, related in a speech to us how Pacific Rim states, such as South Korea, Singapore, Hong Kong and Taiwan, leapfrogged over Latin America in their standards of living in the past 20 years. "It was our own fault. The import substitution strategy adopted by most Latin American nations from the 1950s on has gotten us where we are today. Faced with inflation, burgeoning foreign and domestic debts, decaying infrastructure and seemingly interminable economic crisis, we Latin Americans woke up to the need for a major overhaul in economics."

In Brazil and, to a lesser extent, in Argentina, there is more than economic growth at stake. Brazil's president pointed out to me: "Chile began its reforms under a military dictatorship; Mexico under a system that has only a fraction of the democracy we have here." His point: Can developing countries combine democracy with economic reform and growth?

His is a valid question not only for Latin America but for Eastern Europe and, of course, the Soviet Union and China. That's why we must curb austerity-hawks at the IMF and, indeed, at some of our own commercial banks. Post-World War II Germany, Italy, Japan and, more recently, Spain demonstrate that democracy and economic growth can go hand in hand.

U.S. policymakers should refresh themselves on how leaders in those countries made it possible for their economies to progress without prolonged hardship. ■

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BY ERIC S. HARDY

traditional Graham and Dodd easures, the stock market is overvalc: Companies are trading at 2.3 nes their book value and 33 times eir dividend payments. Nonetheless, Louis Navellier, a money manag- and publisher of the *MPT Review* ewsletter, sees plenty of buys. The 5 companies on his computer-gen- ated recommended list show ex- nding profit margins and recent ositive earnings revisions from ana- sts. The high number of stocks on is buy list is only one reason Navellier optimistic about the market, at least the short term. He's also impressed the diversity of the list, which ncludes computer companies like ell and Cisco Systems, pork produc- Smithfield Foods, and ECI Tele- om, an Israeli phone equipment aker traded here via ADRs.

Like Navellier, A.C. Moore, who llows the market for Argus Invest- nent Management, agrees that stocks verall look pretty expensive. But Moore believes the big surge in rowth stocks so far this year has istorted traditional valuation mea- ures. "Growth stocks [like Wal-Mart nd Amgen] are up so much this year hat the whole market's P/E and rice/book ratio is overstated," he rgues.

Moore thinks the market looks trong and could get stronger based n other factors, including favorable echnical action such as breadth (the umber of advancing stocks relative o declining ones) and the ratio of new highs to new lows. He also sees low interest rates that appear to be headed even lower as especially favorable. A value investor, Moore is recommending mostly stocks trading at below-market multiples of book value and earnings. Cyclical stocks look cheap to him, and paper is among his favorite industries. "I can buy stocks like James River and Willamette Industries at close to book value," he says, "while the overall market is trading at about 2½ times book." Moore also likes big airlines—UAL, Delta, and especially AMR.

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	0.7%	26.2%	0.0%
Sharpe/Barra Growth index[1]	1.1	34.7	0.0
Sharpe/Barra Value index[2]	0.1	12.9	–0.3
Dow Jones industrials	–0.2	21.1	–1.0
S&P 500	0.5	27.4	0.0
NYSE	0.5	26.9	0.0
Nasdaq	1.7	43.9	0.0
Amex	0.4	16.5	–1.0
EAFE[3]	0.2	4.1	–22.7
CRB index[4,5]	–0.4	–14.1	–23.0
Gold[5]	–1.0	–13.9	–29.4
Yen[5]	0.2	–6.6	–16.7
Oil[5]	1.5	–31.4	–46.7

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
Security Pacific	35¼	49%	$2.60	Coventry	9½	–47%	$1.41
Boulevard Bancorp	18	41	0.07	Salomon	22⅝	–38	4.60
System Software	20½	37	0.91	Eljer Industries	7½	–30	0.45
Immune Response	17	33	–0.33	MacNeal-Schwendler	11½	–26	1.11
Midlantic	8	33	–2.56	Lifeline Systems	10¾	–26	0.65

The best and worst performing industry factors[6,8]

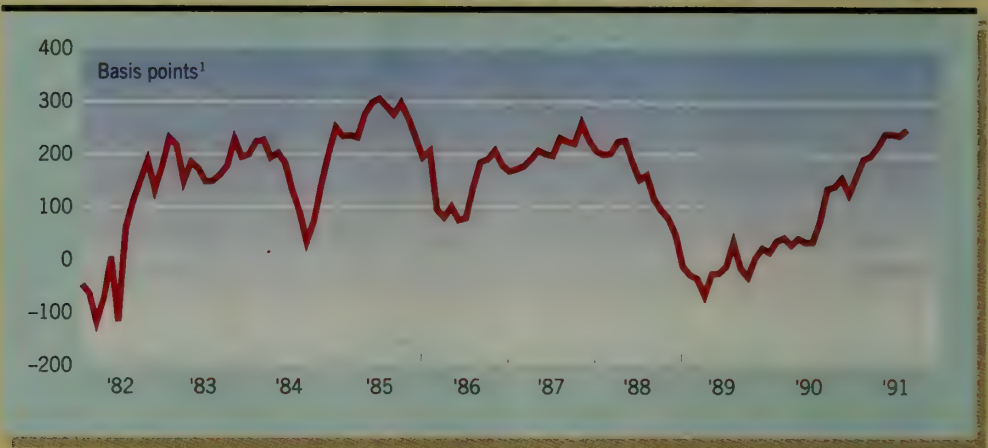
Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Banks	5.3%	47.7%	Real estate	–5.7%	23.6%
Life insurance	4.1	15.4	Precious metals	–5.3	–19.4
Photographic, optical	3.0	–6.4	Motor Vehicles	–5.1	16.2
Coal, uranium	2.8	–6.8	Air Transport	–3.3	12.6
Agriculture, food	2.7	26.6	Water transport	–2.3	22.3

Note: Data for period ending 8/22/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of a portfolio of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight Ridder Financial information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from Lynch, Jones & Ryan. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NM: Not meaningful. Principal source: Barra, Inc., Berkeley, Calif.

BY ERIC S. HARDY

Yield curve

30-year rate minus 1-year rate



Yield vs. inflation

Spread over Treasurys		Total returns		
Security	Basis points[1]	Security	1 year[6]	3 years[6,7]
AA corporates	50	AAA corporates	10.6%	10.8%
AAA industrials	55	Ginnie Maes[5]	11.8	11.9
Ginnie Maes	66	Junk corporates[4]	15.9	8.6
Junk corporates[4]	723	Municipals[5]	8.7	9.3
Municipals[5]	-158	Treasury bonds	9.9	10.4

Note: Except where footnoted, all information provided by Berkeley, Calif.-based Barra, a financial consulting firm. [1]A basis point is equal to one hundredth of a percentage poi [2]Yield on ten-year Treasurys. [3]The trailing 12-month increase in the Consumer Price Index, through 7/31/91. [4]Source: First Boston. [5]Source: Shearson Lehman Brothers. [6]Da through 7/31/91. [7]Annualized

Administration and congressi predictions of record-high fe budget deficits have failed to stem rather dramatic price gains in T sury bonds, whose long-term yi have dropped in less than a mon time to 8% from 8.5%. Rates on th month T bills have fallen to less t 5.4% (equivalent to 5.5% on a b that pays interest semiannually).

The rally in risk-free U.S. Treas also pushed up prices, and there pushed down yields, on corporate municipal issues. But not as muc you would expect. Since early Aug says David Madigan, municipal st egies manager at Merrill Ly "we've seen long-term munic bond yields decline only slightl about 10 or 15 basis points [10 or hundredths of a percent]—wi Treasury rates have fallen shar This has created one of the best b ing opportunities in municipals several years." Madigan is not concerned about the creditwort ness of municipals, even in states New York and Massachusetts, concedes that an investor who b expecting easy capital gains might disappointed. He thus advocate "buy and hold" in which the inves sweats out the credit scares.

Short-term nongovernment se rities (such as commercial pap bankers' acceptances and repurch agreements) all yield well below which helps explain the historic low yields of money market fun But credit quality remains po Moody's Investors Service repo that ratings downgrades are still o numbering upgrades for corpor bonds of all maturities. During second quarter the ratio of dow grades to upgrades for corporate de was more than 3-to-1. Investmen grade bonds fared the best, what wi 62 of the 96 downgraded issues bei junk bonds.

The "real" yield on Treasu bonds—the gross yield minus an a lowance for inflation—is running around 4%, much lower than it was the early 1980s (*see Yield vs. inflati chart*), but not too bad when yo figure in today's much lower tax rate

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Leverage in a rising market should work wonders. Yet Counsellors Tandem has been a clunker.

Risk without reward

By Suzanne L. Oliver

IT SEEMED LIKE a good idea at the time. Counsellors Tandem Securities Fund was created in 1986. A closed-end fund, it had leverage built into its portfolio and started with assets of $93 million, of which $49 million represented common shareholders' equity and the rest was borrowed funds. The $44 million borrowing took the form of a 7¼% preferred issue, redeemable in 1996 at its $50-a-share par value.

This was what was seemingly clever about the arrangement: The preferred carried a low yield by dint of the fact that it was going to be 70% tax exempt to corporate holders. That's because the preferred's payouts would be covered by dividends collected by the fund, those dividends in turn being the sort of intracorporate distributions that qualify for the 70% exclusion.

In effect, then, holders of Counsellors Tandem common shares were being invited to invest in a margin account whose margin loan rate was a mouth-wateringly low 7¼%. So long as the portfolio returned comfortably more than 7¼%, the common holders could expect outsize returns.

Of course this leveraged portfolio would be more volatile than an unleveraged one, but in 1986 who cared?

They care now. In one respect the fund has performed just as expected: It's risky. The net asset value of the common shares is about 50% more volatile than the stock market.

As for the reward, however: In the not quite five years since it opened, the fund has averaged a return of only 12% a year, against 14% for the market. Now, 12% may not seem bad at first, but it is really terrible for a fund that is borrowing money at 7¼% to invest in a 14% market.

One part of the problem is a heavy dose of utility stocks. The fund buys these because they pay good dividends and help insure that the payouts on the 7¼% preferred can be covered exclusively from dividends received, thus preserving the tax-favored status of the preferred issue. In 1987, however, rising interest rates diminished the appeal of utility stocks. That year, in which the S&P 500 market index was up 5% (including dividends), common shares of Counsellors Tandem lost 27% of asset value.

Next, a high expense ratio—last year—has dragged down pe mance. Portfolio manager Anth Orphanos says that expenses were normally high because the fund fighting off a proxy attack aime forcing the fund to liquidate o open-end. In a truce with the tackers, the fund bought back 41 its preferred shares at 99% of par 41% of the common at 95% of asset value. Before the battle, b issues had been trading on the N York Stock Exchange at consider wider discounts.

This isn't the only levera closed-end equity fund *(see tal* But there won't be any more fu structured just like it. A 1986 tax prohibits the disproportionate allo tion of a fund's income to one clas shares. Counsellors survived unde grandfather clause.

Orphanos, 45, began assisting w the management of the Counsell portfolio a year ago. He has contr uted to a respectable three-year turn, and now has a third of the fun assets in electric utilities, with largest positions in Central & Sou West Corp., Houston Industries a Philadelphia Electric. Orphanos l cut holdings in gas and telepho utilities.

For the nonutility portion of t fund's portfolio, Orphanos pic from stocks approved by a committ at E.M. Warburg, Pincus, the inve ment bank that effectively owns t right to manage the fund. He loo for medium-to-large-capitalizati stocks with above-average returns equity and consistent divider growth. Freeport McMoRan, Gene al Electric and Merck are the fun largest nonutility holdings.

Orphanos has done well so f beating the market by two points ov the past 12 months, with a 15% r turn. But the generally disappointi record of this fund shows that there no magic in leverage or in clever t breaks. The main attraction of th closed-end is that it trades at a 15 discount to its net asset value per sha and is due to be liquidated or ope ended in 1996. Buy it if you lik utilities and are so bullish that yo want to buy on margin. ■

Leveraged funds

Fund	3-year return annualized[1]	Recent price[2]	Premium or discount[2]	Annual expenses per $100
Convertible Holdings[3]	8.7%	17⅝	–12.5%	$0.86
Counsellors Tandem Secs	23.7	12¼	–15.3	2.33
Hampton Utilities Trust	15.0	11¼	–15.9	0.81
Quest for Value[3]	19.8	28	–11.6	0.82
Source Capital	11.4	41¼	4.6	0.97
Vanguard Gemini II[3]	6.3	26⅞	2.8	0.55

[1]As of July 31. [2]As of Aug. 23. [3]Dual fund.
Sources: Lipper Analytical Services; FORBES.

Ordinary funds can leverage their portfolios with futures, options and borrowings. But these six funds have leverage built into their capital structure.

e of the worst-selling funds around pens to be one of the best-performing: Mutual Benefit Fund.

Unsung hero

eth Lubove

Y SAY THAT funds are sold, not ght, and there is no better illustra- than the little Mutual Benefit d. In a booming fund industry sports dozens of mediocre per- ers with $1 billion or more in s, this first-class fund can lay n to only $42 million. The mod- $152,000 annual man- ment fee generated that asset pile is cely enough to keep n the midtown Man- an office of the adviser, kston Investment nagement. If it weren't he pension money they age on the side, Mark- n's three stock pickers uld probably be better financially if they quit worked in a shoe store.

Let's hope they don't t, and instead succeed in acting a few more dol- to their fund, whose sistent performance has ned it a spot for three rs running on the rbes honor roll *(Sept. 2)*.

So why aren't investors beating a h to the fund? First, the three ncipals of Markston—Michael llarkey, John Stone and Roger b—just aren't very good at selling mselves. Mullarkey and Stone naged investments together at the rd Foundation before founding arkston in 1981, and they added b in 1985. They've never appeared PBS' *Wall Street Week With Louis keyser* or courted publicity, and uld much rather stay at the office mbing through their 6,000 compa- files than go on the road pitching e fund to brokers.

Nor did it help that Markston put stribution of the fund in very unen- thusiastic hands. The fund, which carries a maximum sales load of 4¾%, is retailed through life insurance salesmen for the Mutual Benefit Life Insurance Co. of Newark, N.J. These people make their living selling insurance policies and do funds on the side. And when they do sell funds, they are tempted to select from better-known or higher-commissioned offerings from other fund families they represent, such as Lord Abbett.

Dary Ann Saunders

Roger Lob, John Stone and Michael Mullarkey

Sharp fund managers, lousy salesmen.

To these stumbling blocks add a third: the travails of Mutual Benefit, which recently fled to the protective custody of the New Jersey insurance commissioner after a run on assets by policyholders. To be sure, the assets of the fund are separate from the assets of the troubled underwriter, and the fund suffered no shareholder run at all. But it can't help sales of the fund that its name is a Typhoid Mary in financial circles.

Overlook these marketing problems and you find a fund with a consistent investment strategy that has enabled it to average a 16% annual return over the last three market cycles (since Nov. 30, 1981), more than a point better than the market.

The Mutual Benefit Fund portfolio has the lowest average price/earnings ratio among the 20 funds on the honor roll: 15, versus the market's 20. The portfolio is about as far from glamorous as you can get. One of the largest holdings is Stanhome Inc., which sells figurines and tacky wall decorations through gift stores and, more important, through clubs of loyal collectors. It trades at 33, or 14.5 times earnings.

Stone, 50, who has a doctorate in economics from Cornell, prefers companies with a competitive advantage such as a brand name, license or copyright. Thus, the portfolio contains a large dose of brand-name stocks like Clorox, Kellogg and Coca-Cola. (For a different view on brands, see the cover story in this issue.) But he also has a hankering for modest price/earnings ratios. Thus, the fund has a large stake in National Presto Industries, a maker of kitchen gadgets with an uninspiring growth record but a big share of the pressure cooker business and a P/E of only 12¼. Also, the firm is sitting on $25 a share in cash, half its stock price.

When Markston has stumbled, it has done so by paying too much attention to the P/E and not enough to management. Stone regrets a position taken in Brunswick Corp. two years ago, at $19 a share. Brunswick badly miscalculated in trying to force dealers to sell Brunswick boats only if equipped with Brunswick engines. A lot of dealers simply dumped Brunswick. The fund sold the stock at $20.

Will Stone and his partners ever cut themselves free from Mutual Benefit? Stone is reluctant to say so, since the insurance outfit still owns 51% of Markston and accounts for 82% of the $535 million in pension and mutual fund money that keeps Markston alive. But a change of name for the fund and a bit of publicity could do wonders for sales. ■

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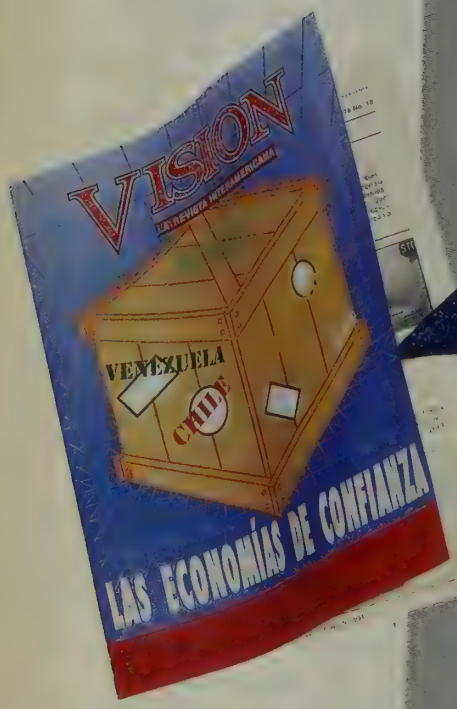

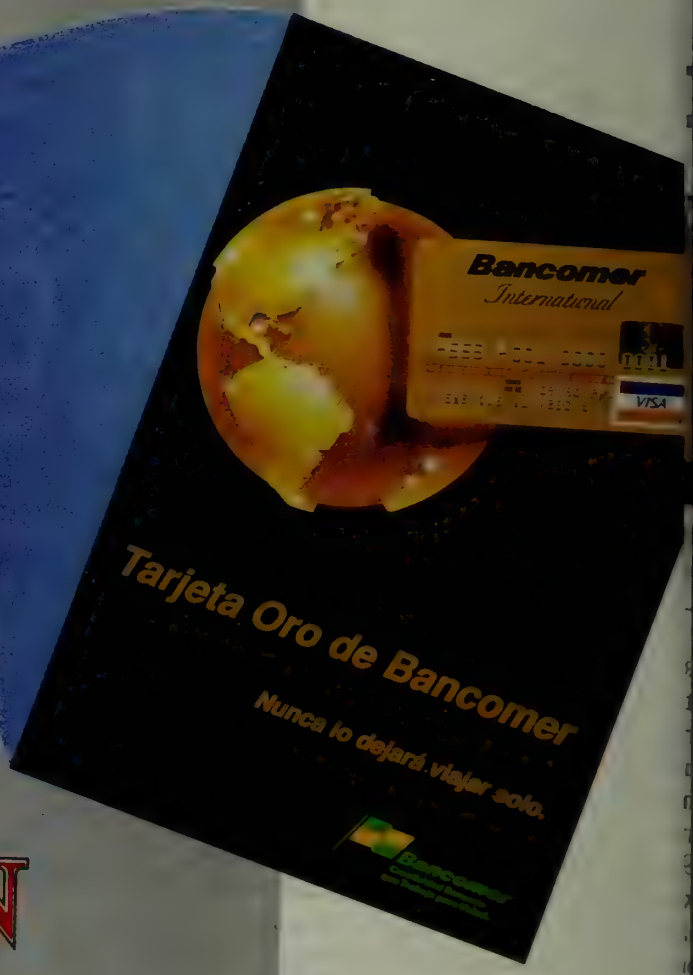

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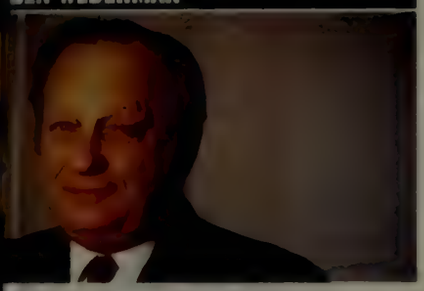
appy with meager returns on T bills, ney funds and bank CDs? You can do much better out much more risk by stretching to longer maturities.

Third-quarter stretch

BEN WEBERMAN



Weberman is a columnist FORBES magazine.

ORT-TERM money market instruments are good for liquidity and safety principal. But they're not very attive for yield these days.

Three-month Treasury bills were ing more than 9% in the spring of 9, and six-month FDIC-insured k CDs were yielding close to 10%. day, bills are about to break ough 5% into the 4% neighborod, and banks pay about 5.4% for f-year deposits.

Surely that's a shocker to those who re smug about their holdings while ceiling was crashing on junk bond estors. So what should you do if u've got short-term money market estments coming due? With inter- rates unlikely to rise again anytime on, it doesn't make sense to roll ur investments over. Think about tending the maturity of your holdgs to capture higher yields.

A good place to start is with longerm Treasury issues. For most indidual investors, these obligations rry a better aftertax yield than do milar-maturity high-quality taxable bt obligations.

Furthermore, the relatively steep ld curve is attractive, providing an incentive to extend maturities. For example, three- and six-month bills yield 5.43% and 5.53%, respectively, but you can pick up an extra 1% a year by going out to the 3-year due date. The 6⅞s of August 1994 pay 6.62%. And the January 1998 bonds—due in 6 years—pay 7.64%. You can gain another 0.5% by buying bonds due in 15 years to 30 years.

One good strategy is to buy a mix of different maturities. At Dean Witter Reynolds, Kevin Flanagan, vice president and money market economist, suggests that, instead of the 5.23% three-month bill, you buy some two-year notes paying 6.40%, some three-year issues paying 6.75% and some five-year notes at 7.38%.

William Addiss, executive vice president and national retail sales manager at Shearson Lehman, agrees that this "laddering" provides some liquidity and an average return that's a lot better than anything earned by a money market mutual fund or a CD.

In checking yields in the daily Treasury bond, note and bill tables, remember these quotes represent returns to purchasers of large, institutional amounts, say $1 million or more. Retail amounts of $25,000—or smaller—get less generous returns. A small investor will get 10 basis points to 25 basis points less than the amounts shown in the tables. Thus a two-year Treasury note paying 6.35% to an institutional investor would pay only 6.15% to a retail investor.

While extended maturities bring higher yields, they also bring added market volatility: The longer the maturity, the more the security will move in reaction to interest rate changes.

For example, for each 1% of yield change in the market, the price of an outstanding 1-year debt issue with an 8% coupon will move just under 1 point. But on a 5-year note, the price will move 4 percentage points. A 10-year note gains roughly 7 points in price when market yields fall 1%, or loses 6.5 points if rates rise 1%. For the 30-year bond, the move is even more dramatic. A 1% rate move brings a 12.5-point price rise or a 10.3-point fall, depending on the direction of the rate change.

If you want higher yields for a tax-deferred account like an IRA, Keogh or 401k, short-term corporate bonds and shorter-maturity collateralized mortgage obligations offer slightly better yields than does Treasury debt.

General Electric AAA-rated 7⅞s of May 1, 1996, due in just under five years, trade at 102.2 to yield 7.3% to maturity. That compares with a 7.05% return to a retail buyer of a five-year Treasury.

For a somewhat shorter corporate bond, Procter & Gamble AA-quality 7.1% medium-term notes of Sept. 1, 1994 are offered at 101 to yield 6.75% to maturity. That compares with a 6.5% yield for a comparable Treasury maturity.

Shorter-maturity CMOs carry 60 basis points more yield than corresponding Treasurys. One example: Federal Home Loan Mortgage Corp. 7⅛ Series 1141 Class H obligations have an estimated average life of 2.29 years. At 100.11, they yield 7.04%.

Bond mutual funds offer another alternative to investors, especially those who prefer to leave the sorting out to others. T. Rowe Price has a Short-Term Bond Fund with an average weighted life of 2.9 years that has a yield of 7.5%. The T. Rowe Price U.S. Treasury Intermediate Fund, with an average maturity of 4.6 years, yields 7%.

At Fidelity in Boston, Michael Gray, vice president and fixed-income portfolio manager, lists Spartan Limited Maturity Government Fund with an average maturity of 5.5 years that pays 7.8%. He also shows Spartan Ginnie Mae Fund, with an average life of 8.4 years, yielding 8.4%.

Because Spartan funds have no load and low annual operating expenses, the minimum initial purchase is $10,000. ■

You don't need home runs to do well in investing. You need a plan, the gumption to stick with it and a portfolio of good stocks.

The sensible investor

BY DAVID DREMAN

David Dreman is managing director of Dreman Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy.*

WHY DO SO MANY folks, successful in their own fields, fail miserably in the market? Though they spend years learning to master their professions, they devote little or no time to planning how to invest the bounty they earn. Instead, most collect a miscellany of securities, with mediocre results.

The way to avoid this common fate is to think out an investment plan. And stick to it, religiously. Decide what portion of your assets you want in stocks, in real estate, in bonds. The percentages will vary with personal circumstances, such as age, income and willingness to bear risk. To give some guidelines, large pension funds normally place from 50% to 70% of their assets in equities, with the remainder dedicated to real estate, cash equivalents or bonds.

And here comes the first hurdle: Don't continually vary the proportions with every blip of the market. Inevitably, some professionals will advise you to switch the percentage of equities to fixed-income with every change in the market, the inflation rate or the economy. The more negative the near-term outlook, the more vocal the "experts" will be for you to reduce your stockholdings and move into cash and bonds. When stocks are flying, the advice, naturally, is reversed. Following this kind of advice is almost a guarantee of failure. It gets you in at the tops, out at the bottoms.

Sticking to your planned course will be gut-wrenching at times, but it will put you well ahead over the years.

A second important tenet I use for client bond positions is to keep maturities reasonably short. With interest rates low, there is a tendency to "lock in" the somewhat higher rates in the long end today before rates drop even further. The problem is that interest rates have already fallen so far that in the highest tax brackets, for the first time in a decade, you get a zero-to-negative return on your investment after taxes and inflation. If inflation rekindles with the recovery, which is probable, interest rates will rise, possibly sharply. People moving into long bonds now could lose 20% or more of their investment—a pretty miserable prospect for the part of your portfolio that is supposed to represent stability.

Therefore, I recommend keeping bond maturities short, in the 2-to-3½-year range even at the price of accepting a disappointing rate of interest. This strategy will protect you from all but minor losses and, by keeping your powder dry, allow you to take advantage of higher rates when they occur.

Turning to stocks, one of the most important and least-remembered rules is diversification. I have seen dozens of otherwise disciplined investors take two or three big bets, very often on high-price concept issues, with almost uniformly poor results. Sure, we have all heard stories of people who have made zillions b early on the Xeroxes, the Pola and the Genentechs. But for such winner there are a thousand wipeouts. Stocks are for investn lotteries are for gambling.

Anyhow, an investor doesn't n home run to do well. The compo ing effect of holding good stock been excellent over time. For e ple, $50,000 invested in the S&P 5 decade ago would have been w $206,354 on June 30.

How much diversity should a vestor have in the equity portion portfolio? I recommend holdin to 35 stocks about equally weig in 16 to 18 different industries. If is too complicated for you or if don't have enough money to spre around, consider buying a solid tual fund or funds to do the job you. (See the FORBES annual mu fund survey, Sept. 2, for guidance

For those who prefer to cr their own portfolios, here are s solid stocks that currently look sonably priced:

Alcoa (69) is the world's lar producer of aluminum. With impr ing business conditions, earni should rebound in 1992 and conti up for the next several years. stock trades at a P/E of 15 on pressed 1991 earnings estima yielding 2.6%.

Federal Home Loan Mortgage (is the second-largest originator mortgage-backed securities. Earni have increased at a 36% annual since the stock went public in 19 and should be up almost 30% in 19 with continuing growth likely in foreseeable future. Freddie Mac h P/E of 12 and yields 2.2%.

Federal National Mortgage (60 the nation's largest provider of r dential mortgages. Income is likely increase approximately 12% this y and 15% in 1992. The stock trades P/E of 12 and yields 1.7%.

PHH (30) is one of the larg providers of fleet and relocation m agement services. The stock trades a P/E of 10 and yields 3.9%.

ServiceMaster (29) provides m agement services for health ca educational and industrial faciliti Earnings are recession-resistant a should rise 10% in 1991. The sto has a P/E of 10 and yields 6.4%.

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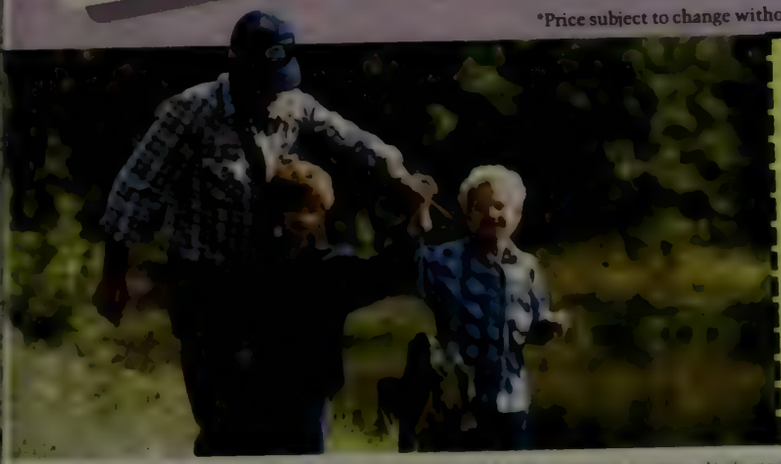

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A veteran market seer, after years of being a bear, now begrudgingly grades the market's trend as bullish.

Reluctant bull

BY MARK HULBERT

Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest.* His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

WHEN RICHARD RUSSELL changes his opinion about the stock market, it pays to listen. He's been publishing his advisory service, entitled *Dow Theory Letters,* since 1958—which makes his investment letter the oldest I know of that has been published continuously by the same editor. Russell has been bearish for several years now. But this summer he suddenly decided that the market's primary trend is now bullish.

His turnabout made me sit up and take notice. According to the *Hulbert Financial Digest,* Russell's timing advice has been one of the few to have beaten the market over the last 11 years on a risk-adjusted basis. An investor who switched between an index fund and cash on Russell's signals since 1980 would have made 85% as much as the market itself with only half the risk. That's impressive. The alternative way to cut your risk in half would have been to keep half your money in Treasury bills—and you wouldn't have come close to earning 85% as much as someone with an all-stock portfolio.

Russell has made two extremely impressive calls. Less than a week after the August 1987 stock market top, at a time when bullish sentiment among advisers was extreme, Russell turned bearish. This was nearly eight weeks in advance of the 1987 crash, giving his followers plenty of time to get out. And in December 1974, within weeks of the bottom of the great 1973-74 bear market and at a time when pessimism was rampant, Russell turned bullish. This was before I started tracking newsletters formally, but I have independently confirmed this part of his record.

Needless to say, Russell's record isn't 100%—no one's is. He was bearish for most of the time since his bear-market signal in August 1987, for example, causing his followers to miss most of the 1988-91 rally. But his overall record is such that I for one take his views seriously.

What made Russell turn bullish this summer? As his service's name would suggest, Russell relies heavily on the Dow theory. This is the technical theory, introduced by Charles H. Dow in the 1920s, that declares the market to be in a bullish or bearish mode only if this trend has been confirmed by both the Dow industrial average and the Dow transportation average.

On Russell's interpretation, a bull market was signaled earlier this summer when both the industrials and the transports reached new highs—the transports to a new recovery high and the industrials to an alltime high. Indeed, he now says, he was wrong to have been bearish in the months prior: "As I see it today [with hindsight, of course], the primary trend has been, and remains, bullish."

Some of Russell's other indicators have joined the Dow theory in declaring this a bull market. Russell's own "primary trend index" has reached new record highs several times this summer. Russell won't divulge the composition of this index other than to say that it is a composite of eight technical indicators that "track the action of the market itself." But the message from this index, according to Russell, is that "technical understructure of the market remains bullish."

Russell advises against treating change of mind as a "throw cautio the winds" buy signal. He rem concerned about the long term. says he responded to his buy signa purchasing for his portfolio no m than a "moderate" position in sto

Russell is such a reluctant because the market isn't chea according to any of a number fundamental ratios such as price book, price-to-earnings or price dividends. And while it may seem of character for a Dow theorist, any technician for that matter, to paying so much attention to fun mentals, Russell sees nothing inc gruous about doing so. In fact, contends, "a consideration of val constitutes the very guts of the D theory. In studying major tops a major bottoms, the most import and the most consistent gauge, none, is stock values." If that me that a Dow theorist must look fundamental as well as technical f tors, in Russell's opinion this means that the Dow theory is no purely technical system.

Russell's prediction of short term strength followed by long term weakness coincides nicely wi the forecasts of other top timers. *Ma ket Logic* and *Hussman Econometri* for example, whose econometr models couldn't be more differe from Russell's approach, are both al calling for an eventual bull market t later this year—to be followed by severe bear market *(see my May column).*

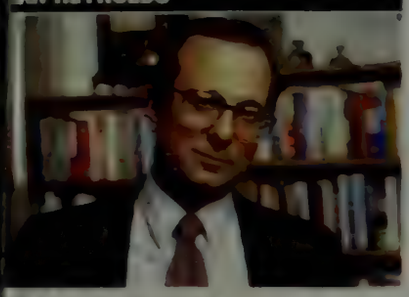
Russell advises investors who bu stocks here to treat them as tradir positions rather than as long-ter buy-and-hold investments. How w the investor know when to bail ou Russell says to be on the lookout fe nonconfirmations among the ave ages. That is, if just one or two of th major market indexes break out t new highs, and if none of the othe major averages is able to do so ove the ensuing weeks, this will be an earl warning signal of big trouble.

You can sum up Russell's views lik this: Enjoy the party, but make sur you know where the fire exits are an don't get too far from them. ■

prospects for Eastern Europe fading, America looks better and better as a place to invest. void countries that heed the IMF.

unshine in he South

AN REYNOLDS



nolds is the director of c research for the Hudson Institute of olis, Ind.

A YEAR ago Europessimism gave o a stupendous burst of euphoria t all the wonderful things that going to happen as a result of the ration of East and West Germa- he freeing of trade in "Europe 2" and the supposedly tranquil alization of the Soviet bloc. The s in this storybook were already wing badly, even before Mos- s KGB shattered the illusions.

's our good luck as Americans all the good things that were osed to happen in Europe are ally happening on our doorstep. n America is rapidly moving to k down barriers to trade and stment. Chile, Mexico and Boliv- ed the way, cutting tariffs that etimes reached 100% or more n to 10% to 20%. Argentina, Bra- Colombia and Peru are moving in same direction. There has been gress in eliminating barriers to for- n invesment, such as the new pat- laws in Mexico and Brazil, and the ning of Brazil's stock market to ign institutional investors.

he competitive spur to improve lity and cut costs, which always ows freer trade, has already result- ed in quite respectable economic growth in Mexico, Chile, Colombia, Venezuela and Bolivia.

Even more encouraging is the development of regional common markets that aim to eliminate virtually all barriers among several countries. Mercosur is such a pact between Argentina, Brazil, Uruguay and Paraguay, with Bolivia likely to join soon. The Andean Pact consists of Venezuela, Colombia, Bolivia, Peru and Ecuador. The 13 English-speaking Caribbean countries of Caricom are working toward completely free trade among themselves, as well as with Venezuela and possibly Mexico. Other bilateral and trilateral free-trade agreements are forming between the emerging Central American Common Market and Mexico, and among Venezuela, Colombia, Mexico and Chile.

Nearly every country in Latin America has now signed an agreement to negotiate freer trade with the U.S., under President Bush's "Enterprise for the Americas Initiative." Prospects look good for U.S. free-trade agreements with Chile, Colombia and Costa Rica, as well as Mexico.

Curiously, the media have paid little attention to these important developments. U.S. exports to Latin America were cut in half during the ill-conceived "austerity" policies imposed by Western advisers in the early 1980s. Since 1986, though, U.S. exports to Latin America have doubled, approaching $100 billion. On the import side, low-priced materials and components from Latin America have held down U.S. manufacturing costs, helping to keep U.S. goods magnificently competitive on world markets; from 1986 to 1990 U.S. export volume rose by 13% per year, compared with 2.7% for Japan.

Tax reform, like free trade, has always been another vital component of renewed economic growth and reduced inflation. The record, as follows, is awesome:

- Mexico cut the top tax from over 60% to 35% in 1989-90. Tax revenues rose from 16% of GDP to 18.6%.
- Jamaica cut the top tax from 58% to 33% in 1986. Tax revenues rose from 28.1% of GDP to 33.4%.
- Colombia cut the top tax from 60% to 30%, mostly in 1984. Tax revenues rose from 7.8% of GDP to 10.6%.
- Chile cut both corporate and individual tax rates in 1984. Tax revenues rose from 7.8% of GDP to 10.6%.
- Bolivia cut the top tax from 45% to 10% in 1986, and let taxpayers deduct the value-added tax. Tax revenues rose from 1.9% of GDP to 7%.

In those Latin American countries that have not yet adopted competitive tax policies, punitive tax rates are yielding less and less revenue, obliging governments to print money to pay their bills. In Argentina, where taxes remain onerous, government revenues fell from 15.1% of GDP in 1986 to 4.7% in 1988. Peru routinely overtaxes everything, and revenues have dropped from 14% of GDP in 1985 to 6.4% in 1989. Brazil imposes a counterproductive 61% tax rate on foreign corporations; Brazil has stopped publishing figures on its dwindling tax revenues.

Unfortunately, the International Monetary Fund continues to push Latin America in the direction of counterproductive tax increases. *Business Latin America* recently reported that in Peru "taxes . . . will be hiked sharply in an effort to narrow the deficit to the IMF-mandated target." In Argentina "the IMF seeks to boost the country's fiscal surplus by raising . . . taxes." Raising taxes in countries with already high tax rates is a bit like trying to sober up by having another drink.

Want to invest in Latin America to get a piece of the growing action there? Wherever the IMF is actively involved in "helping," shun that country's stocks and short the currency. Put your money in countries that understand lower tax rates mean faster economic growth. ■

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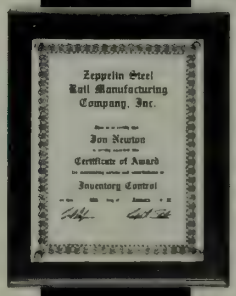

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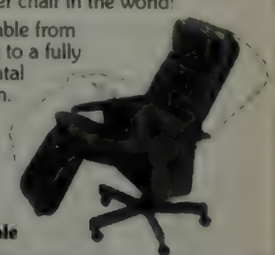

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Island in the sun

LOOK AT the chart of the Dow Jones industrial average preceding the New York Stock Exchange prices in the *Wall Street Journal* each day. You'll notice two breaks in the chart line between Aug. 16 and Aug. 21. These breaks may not mean much to laymen, but to technicians they create a "gap" and are highly significant.

Here's what happened: On Monday, Aug. 19, the morning after the coup in the Soviet Union, the market opened lower than what had been the daily low for the previous Friday, Aug. 16. Hence the first break in the graph. The next day, Tuesday the 20th, the market stayed within Monday's trading range. But on Wednesday, Aug. 21, the day Gorbachev returned to Moscow, the market opened so strongly that even its low for the day ended up above Tuesday's high. Hence the second break in the chart line, and the formation of what technicians refer to as an "island."

In technical jargon, the entire pattern is known as an "island reversal." If the volume accompanying the island reversal is strong—as it has been post-coup—then the reversal is generally considered a bona fide signal that the market is going higher.

So far this technical indicator has worked well. Recent price of the Dow: 3039, well above the island. What's more, say technicians, if the market subsequently sells off, the island may act as support on the downside—support, in short, at around 2930 on the Dow.

La Petite's petite prospects

LA PETITE ACADEMY, Inc. (1990 sales, $201 million) is the second-largest operator of child care and preschool education centers in the U.S., behind Kinder-Care Learning Centers. Unfortunately, some of the activities of La Petite's recently deceased former chairman, Robert Brozman, are returning to haunt the company.

In July, Kansas City, Mo.-headquartered La Petite disclosed that Brozman had improperly used $23 million from CenCor, Inc., another Kansas City-based public company he had run. Although La Petite was not involved in the alleged fraud, it may feel the impact all the same. Robert Brozman's son Jack, is both the president of La Petite and the executor of his father's estate. He has decided to liquidate that estate, which owns about 26% of La Petite's 15.9 million shares. Merrill Lynch has been hired to explore, among other options, the sale of La Petite.

But don't get your hopes up. Todd Richter of Dean Witter thinks the

La Petite Academy child care center
The late chairman was a bad boy.

750-center operation will fetch no more than $10 a share, not much of a premium to the stock's recent o-t-c price of 7½. Nor does he think La Petite will be an easy sale. Richter also says the stock is already fairly valued on earnings, which he estimates will be just 50 cents and 55 cents a share in 1991 and 1992, respectively. He's advising clients to sell.

Higher voltage

THE SAME WEEK that the rollback of the coup in the Soviet Union helped send the Dow to an alltime high, the S&P electric utility average quietly made a new high of its own—68.26.

Electric utilities? Ho hum. But listen to Robert Ritter, technical analyst for New York's Ladenburg, Thalmann. What's striking about the utility sector's new high, he says, is that except for a brief breakout and subsequent pullback in 1989, the S&P electrics had basically been marking time for nearly 25 years. But unlike 1989, Ritter expects no such retrenchment this time around. He notes that since the fall of 1990 the S&P electric utility average has outperformed the long bond market. Ritter thinks it will rise 16% over the next 12 to 18 mon Add another 6% in average divid yield, and the total returns Ri looks for are attractive indeed.

Ritter admits many utilities have to spend heavily to meet e ronmental regulations and pro new generating capacity. On the c er hand, he thinks the industry is for consolidation. With interest r declining, he believes electric utilit high yields will prove increasingly pealing. Among the stocks he li Texas Utilities (recent yield of 7.9 Carolina Power & Light (6.4%), E timore Gas & Electric (6.6%), Ut Corp United (5.9%), SCEcorp (6.3 LG&E Energy (6.4%), Pacific Gas Electric (6%), Detroit Edison (6.1 and Florida Progress (6.4%).

Dividend crimp

SPEAKING OF YIELDS, what gives wi the oils? The group has lagged t market for nearly a year. This, desp the industry's recent history of ri dividend payouts. From 1986 1990, the oil companies paid out average 73% of reported net earning versus just 44% during the previo 25 years. As a percentage of cash flo the group's average payout increase from 18% to 27% between 1980 a 1990. Compare that with the S& 500's cash flow payout, which rose mere three percentage points durin the period, also to 27%.

But analyst Philip Dodge of Dillo Read thinks the days of rich oil com pany dividend increases may be com ing to an end.

Worldwide crude production la year, he notes, was only 8% highe than in 1973. And near term, say Dodge, the oil market must adjust t the resumption of exports from Ira and Kuwait. Until that additiona supply has been absorbed, he expect downward pressure on prices. Longe term, Dodge thinks the industry' profit growth in the 1990s may aver age no more than 5% a year, as th price of oil struggles to keep up wit inflation. If so, it will be difficult fo oil companies to increase their cas flow payouts much further—especial ly when so many of them will have t spend heavily to replenish their de pleting resource bases, as well as t meet air and water quality standards.

Vithout substantially higher divi-
ds, the bearish Dodge concludes,
oil stocks will lose one of their
n props since the mid-Eighties. At
ent, he has long-term buys on
two oil companies: Occidental
roleum (FORBES, *Sept. 2*) and Brit-
Gas. Their recent NYSE prices are
¼ and 46, respectively.

o far, too soon?

RTER-WALLACE, Inc. (estimated
al 1992 sales, $697 million) makes
rything from tranquilizers and
gnancy tests to Arrid deodorants
d Trojan condoms. Between 1986
d 1989 the New York-based com-
ny's per-share earnings compound-
at nearly 18% a year. Then growth
wed, as Carter's drugs ran into stiff
mpetition from generic counter-
rts. For the fiscal 1991 year ended
ar. 31, earnings were up just 2%, to
.37 a share. Meantime, the Big
ard stock treaded water. For
ughly 2½ years it trundled along
tween the low 40s and low 60s.

Since July, however, Carter has
ined some 30%, recently making a
w high of 82. What's behind the
ove? The company expects to file a
w drug application with the FDA
is month for felbamate, a drug that
ntrols epileptic seizures. There's
lk that felbamate could be approved
r sale as early as a year from now and
entually could rack up annual sales
$100 million to $200 million.

But Craig Dickson, director of re-
arch at Charlotte's Interstate/
ohnson Lane, fears the stock has
otten ahead of itself. He thinks felba-
ate's approval may take longer than
xpected, which would push back its
nticipated contribution to earnings.

For the fiscal year ending Mar. 31,
992, Dickson expects the company
o earn $3.85 a share. His estimate for
he following year is $4.22. Respect-
ble growth, says he, but not worth a
premium earnings multiple. And at
ecent prices Carter is valued at a
premium to Warner-Lambert and
Bristol-Myers Squibb—both of
which, according to Dickson, have
superior prospects. He thinks Carter
could backtrack to below 70.

There are 15.3 million shares. The
Hoyt family, led by Chairman Henry
Hoyt Jr., controls 51%.

"This is the way you always imagined the South Pacific to be" Read what Andrew Harper's exclusive guide to unspoiled places says about Malcolm Forbes' exotic Fiji Island paradise.

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"Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of 'bula' are a reflection of the welcome and care extended to visitors.

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"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

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"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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more things change . . ."

years ago in FORBES

THE ISSUE OF SEPT. 17, 1921)

Though now topped by many a later and taller one, this Metropolitan Life office tower, completed in 1909, still vies for the title of New York's most beautiful.

ith this issue FORBES enters its year. Born amidst the strain and ss of war, it has experienced its full re of the vicissitudes of the last four rs. We are happy to be able to say, vever, that our progress has been dy and that we are more strongly renched today, notwithstanding recent general depression, than r before."

he treaty of peace ending the state war between the U.S. and Germany been signed by representatives of two countries and must now be fied by the U.S. Senate and Ger- n Reichstag. The compact assures the U.S. all the rights accruing to s country under the Treaty of Ver- lles, but provides specifically that U.S. shall not be bound by the uses of the Versailles compact relat- to the League of Nations."

0 years ago

ROM THE ISSUE OF SEPT. 15, 1931)

This is a call to arms, a call to wage ar. The enemy is unemployment, a enace which cannot be met by com- acency. The army of unemployed is eater than any army this nation was ever before called upon to face. Six million hungry men, though unarmed, constitute a danger of immeasurable gravity."

–B.C. Forbes

"**The Lindberghs** in Tokyo, the DO-X in New York City, Graf Zeppelin on a flying trip to South America, and [Frank] Hawks breaks a few more records—that about sums up the aviation of the last fortnight. It is necessary to add, however, the very important bread-and-butter news that the Army Air Corps has made contracts involving . . . $2.57 million."

50 years ago

(FROM THE ISSUE OF SEPT. 15, 1941)

"**The President** has just said that 'it is very possible' that the perils facing the nation and the world 'may be even more serious at this moment than they were at the end of August and the beginning of September 1939, when the war began.' He has suggested that the Axis, rather than the Americas, may force the final decision."

"**If the authorities** cannot arrange transportation of a full supply of gasoline for eastern states, there can be but one upshot, rationing through issuing of cards to each consumer. No 'curfew,' no closing on Sunday or any other day, no limiting of shipments to vendors will achieve the objective."

"**Sleek is the word** for these huge, heavy trucks, with Plexiglas bomber-type cockpits—the ultimate in modern design. Now touring the country in General Motors' 'Parade of Progress' (the company's traveling science carnival), these trucks of tomorrow have incorporated the terrifying efficiency of a war machine."

Futuristic trucks transported GM's 1941 "Parade of Progress" show.

25 years ago

(FROM THE ISSUE OF SEPT. 15, 1966)

One Levi Strauss promotion required a single oversize pair of Levis for a young Bob Hope and Rhonda Fleming.

"**Since 1850** over 150 million pairs of Levis have been sold, some 15 million pairs last year alone. President Walter A. Haas Jr. says that even 9,000 employees can't meet current demand. Levi Strauss is still the biggest customer of North Carolina's Cone Mills, which for over 50 years has made the famous XX denim used in regular Levis."

"**According to word** now seeping from authoritative sources in the Pentagon, the U.S. is planning to put yet *another* 300,000 American soldiers in South Vietnam, bringing our total there to 600,000. . . . If 300,000 cannot do whatever it is we are ultimately planning to do, neither will 600,000. . . . How bloody dumb can we get?"

–Malcolm Forbes

10 years ago

(FROM THE ISSUE OF SEPT. 14, 1981)

"**Slowly but surely** high interest rates are choking off the demand for capital goods. Unless you're selling compressors or machine tools, that isn't necessarily bad—at least in the short run. . . . Among the beneficial side effects is higher employment. Whenever you defer capital investment, says Neil Wissing, a Weyerhaeuser vice president, one result is keeping people on the payroll at less efficient machines. Because of the high cost of money, Wissing says, Weyerhaeuser is scaling back 1982 [capital] spending plans by 15%."

Summer, with its dog days, its vacations, its distractions, is over. We have had our holidays, our rest, our recreation. The fall season, with its new opportunities for effort, enterprise and achievement, is upon us. Let us rip off our coats and get down to business. We may have allowed pessimism to grip us during the summer months. We may even have allowed laziness to enter our bones. Now it is up to us to throw off both lassitude and pessimism. The time has come for action, for aggressiveness. . . .

–B.C. FORBES

A Text ...

These things I have spoken unto you, that in me ye might have peace. In the world ye shall have tribulation: but be of good cheer; I have overcome the world.
–JOHN 16:33

Sent in by Mrs. Gay Peterson, Des Plaines, Ill. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Always do right. This will gratify some people and astonish the rest.
–MARK TWAIN

The man who is clever and industrious is suited to high staff appointments; use can be made of a man who is stupid and lazy; the man who is clever and lazy is suited for the highest command, he has the nerve to deal with all situations; but the man who is stupid and industrious is a danger and must be dismissed immediately.
–BARON VON HAMMERSTEIN-EQUOARD

There is nothing that you can have when you are old that can replace being young and having nothing.
–MARY WALLACE SMITH

Life is the greatest bargain: We get it for nothing.
–YIDDISH PROVERB

Among all human constructions the only ones that avoid the dissolving hands of time are castles in the air.
–FREDERICO DE ROBERTO

In love there is always one who kisses and one who offers the cheek.
–FRENCH PROVERB

A bachelor's virtue depends upon his alertness; a married man's depends upon his wife's.
–H.L. MENCKEN

Marriage is our last, best chance to grow up.
–JOSEPH BARTH

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Never play down the importance of incompetence in the organization. It has always been the seed of discontent, independence and successful entrepreneurship.
–WILLIAM BLISS

The will is the strong blind man who carries on his shoulders the lame man who can see.
–SCHOPENHAUER

The English political aristocracy will probably continue to reign. If they were regarded as a living aristocracy their energy and arrogance might irritate people into unrest or destruction. But as they are presented to us as a dying aristocracy, we do not mind how long they take to die.
–G.K. CHESTERTON

There will always be a battle between the sexes because men and women want different things. Men want women and women want men.
–GEORGE BURNS

New York attracts the most talented people in the world in the arts and professions. It also attracts them in other fields. Even the bums are talented.
–EDMUND LOVE

If you want to get rich from writing, write the sort of thing that's read by persons who move their lips when they're reading to themselves.
–DON MARQUIS

Think what cowards men would be if they had to bear children. Women are altogether a superior species.
–GEORGE BERNARD SHAW

SEPTEMBER 30

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Forbes

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Landmark Square, a striking addition to the downtown skyline, is attracting widespread attention by combining an urban setting with panoramic ocean views, countless amenities and excellent value.

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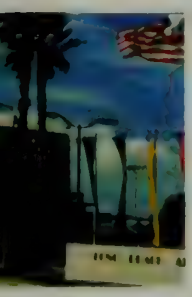

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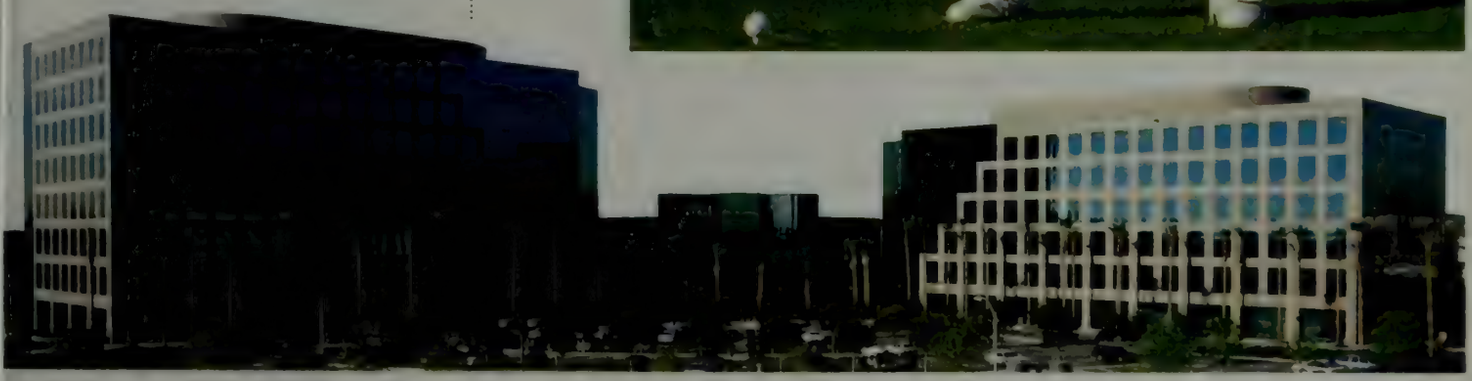

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For more information, contact
City of Long Beach, Mr. Jerry Miller, Economic Development Bureau, (213) 590-6097

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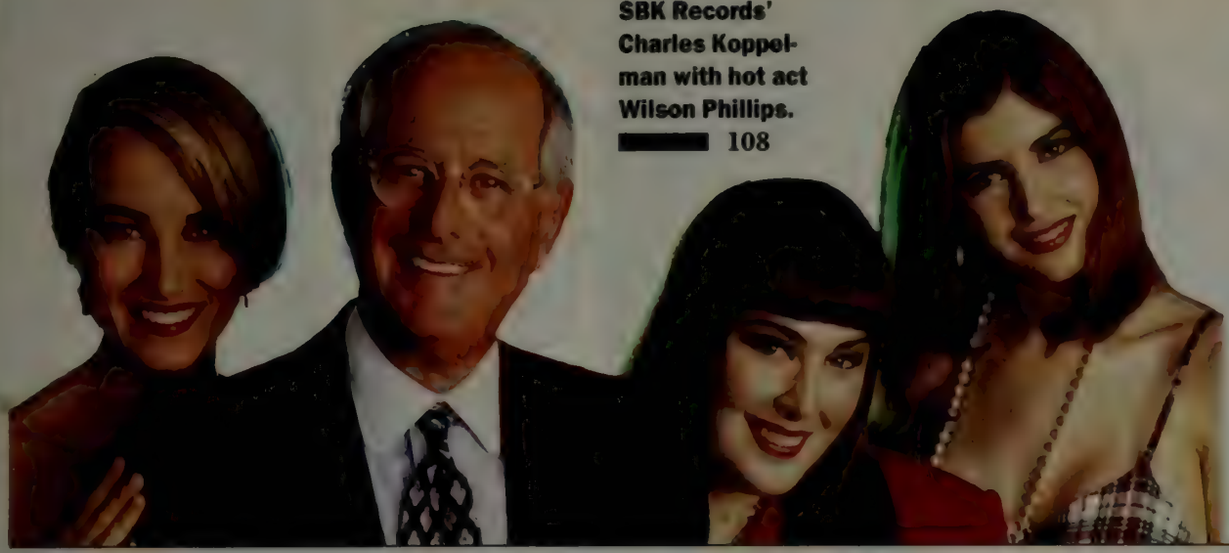
Forbes
SEPTEMBER 30, 1991 VOLUME 148 NUMBER 7



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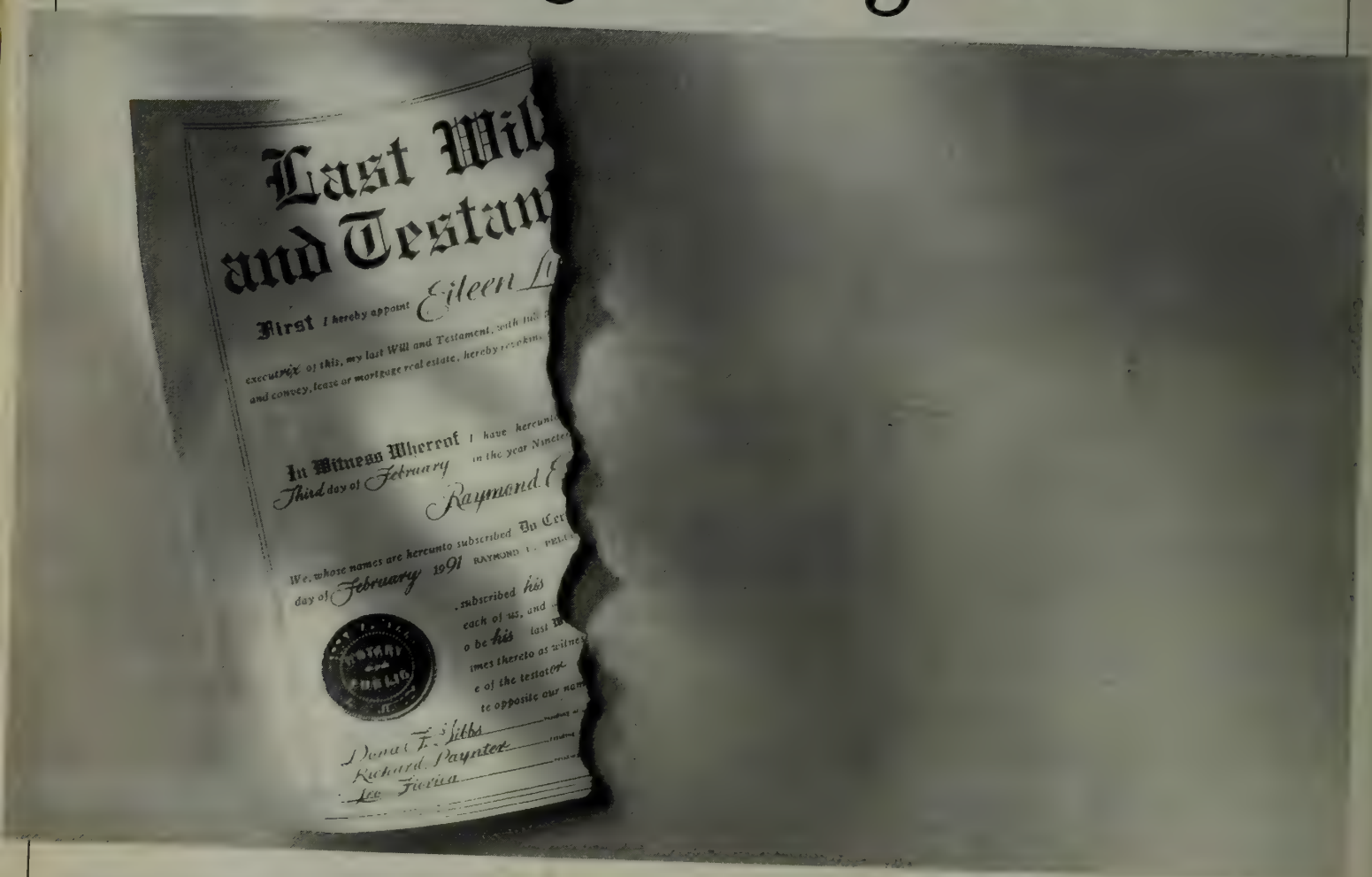
How to keep 55% of your net worth from going to strangers.



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AVA

Schedules subject to change.

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PAID CIRCULATION OVER 735,000

What will the mall brats go for next?

FOR THE FIRST time since FORBES began compiling its annual list of the nation's top entertainers in 1987, neither Michael Jackson nor Bill Cosby holds the top spot. "Cosby's hanging tough at number two," says FORBES' Peter Newcomb, "but Michael Jackson hasn't had a new album or tour in years, dropping him to the fifth spot, behind Madonna. This year's highest-earning act, the New Kids on the Block, may not be as durable as Cosby and Jackson. The next generation of mall brats will want something different."

Lynn Goldsmith/Gil Photo
New Kids

Covering show biz is never dull, says Newcomb, who supervised the feature: "Riding back from the photo shoot for the cover, record magnate Charles Koppelman told his assistant to call legendary rhythm-and-blues singer Smokey Robinson on the car phone. 'Get ready, Smokey,' Koppelman told the aging king of soulful pop music. 'You haven't seen anything like this since the early days of Motown.' Koppelman is backing a comeback for Smokey with $1.5 million. On the plane ride home, Koppelman put the new Smokey video into the jet's VCR and, with the sound blaring, threw his fists in the air with glee." This is business? Yep. Big business. Record sales hit $7.5 billion last year, and several of its impresarios, Koppelman among them, are fast becoming centimillionaires. "What's not to love?" starts on page 108.

Did the boss object?

GRAEF CRYSTAL publishes a bimonthly newsletter on corporate compensation, *The Crystal Report*, and teaches at Berkeley's Walter A. Haas School of Business. He used to do an annual report on executive compensation for another business magazine but quit this year after he was pressed to scale down the figures for several executives. One just happened to be co-chief executive of the giant corporation that owns the magazine.

Now Crystal has written a book, *In Search of Excess: The Overcompensation of American Executives.* In this issue we have adapted a chapter from it describing the convoluted compensation systems applied by the chap who topped all U.S. executives in take-home this year. His name? Steven Ross, boss of Time Warner, which owns *Fortune*, Crystal's ex-employer.

Crystal's numbers differ from the ones in our May 27 executive compensation issue. The difference largely comes down to a matter of opinion on when and over what period gains from stock options and other long-term incentives should be credited. But most observers agree that the number given by *Fortune* for Ross was ludicrously low and that ours and Crystal's, though different, are much closer to the mark.

We at FORBES don't accept the view that chief executives as a group are overpaid. We do, however, think there are some bizarre cases. So will you after you've read "The prince of pay," starting on page 92.

James W. Michaels
Editor

HARRY WINSTON

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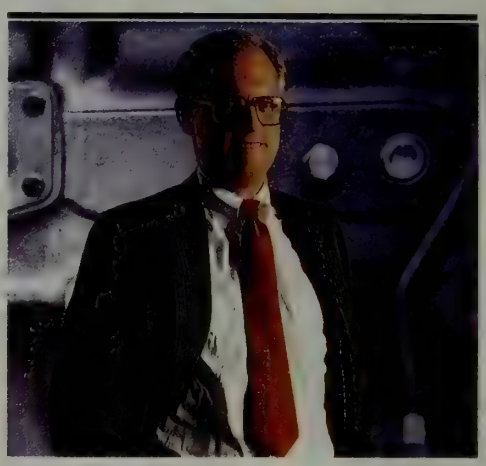
The rewards of patience

JUST OVER a year ago, takeover rumors were swirling around financially strapped Cummins Engine Co. The rumors quickly stopped when three big companies (Ford Motor Co., Tenneco and Japanese heavy equipment maker Kubota) bought a 27% equity stake in Cummins for $250 million (FORBES, *Aug. 6, 1990*).

Chairman Henry Schacht said the deal infused Cummins with "patient money" that would enable the diesel engine maker to plan for the long haul rather than the next quarterly earnings release. All three big investors are either customers of Cummins or partners with it in joint ventures. The arrangement reminded FORBES of Japan's *antei kabunushi:* friendly suppliers, customers and banks that take large stakes in firms that they do business with.


Louie Psihoyos/Matrix

Cummins Engine Chairman Henry Schacht
The patient money is still waiting.

But one year out, says analyst Eli Lustgarten of PaineWebber, "the investors probably wish Cummins had been taken over." Ford, Tenneco and Kubota paid $62.50 a share; today Cummins is around $40, giving the big investors a paper loss of $100 million.

In the first half of 1991 Cummins lost $51 million on revenues of $1.7 billion, largely because the recession curtailed demand for the company's heavy-duty truck engines by almost 30% since last year.

With a debt-to-capital ratio of 44%—pretty high for a cyclical company—Cummins finally cut its quarterly dividend in May from 55 cents to 5 cents. That will save the company around $30 million a year. Still, some analysts think Cummins might need another equity boost before long. If so, Cummins may have to go to the public markets, since other *antei kabunushi* won't be so easy to find.

–KATARZYNA WANDYCZ

Niche-rich

MANY MEDIA COMPANIES are struggling, but not Thomson Corp., the publishing, newspaper and travel empire of Canada's billionaire Thomson family. FORBES expected Thomson to keep piling up money in arcane publishing and information services *(Sept. 19, 1988)*. The piles are a little smaller, but Thomson is resilient. Last year Thomson earned $385 million on $5.4 billion in revenues. Thomson's net profit could be down by 25% for 1991, but Heather Ritchie, an analyst at Midland Walwyn in Toronto, expects earnings to rebound to their prerecession level next year—and grow at least 16% in the years after.

Thomson's secret? Standing alone in out-of-the-way niches. Thomson has spent more than $1.5 billion on acquisitions since 1988, mostly in specialized publications. The biggest: the $810 million purchase in 1989 of Lawyers Cooperative Publishing, which puts out *American Jurisprudence* and other legal journals.

Specialized information, which Thomson sells to professional and commercial customers, relies more on subscription revenue than advertising revenue. Thomson offers 45,000 products, from drug databases for physicians to *Jane's Defence Weekly* to

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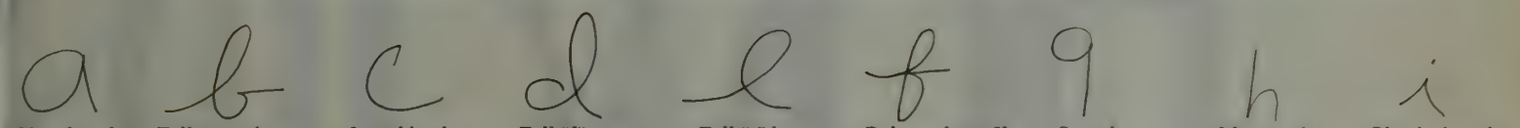
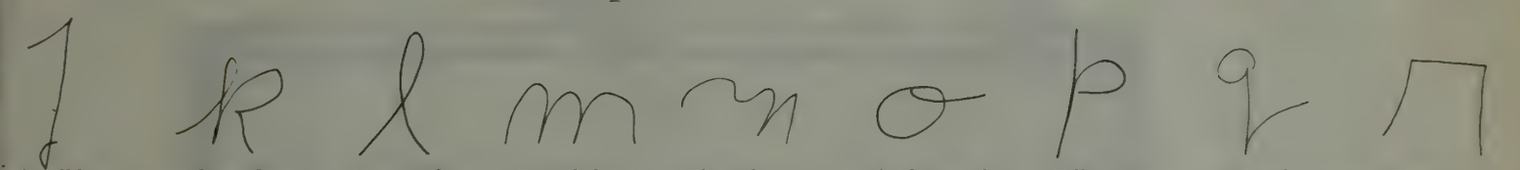
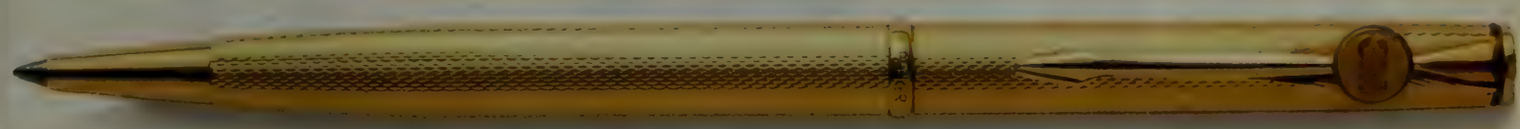
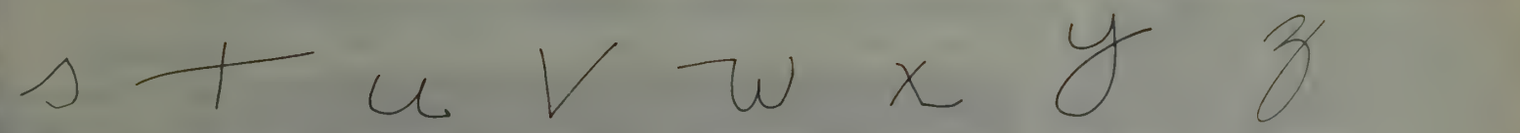


Closed circle: Reticent — *Full upper loop:* Mystical — *Initial hook:* Acquisitive — *Full "d" upper loop:* Sensitive to criticism — *Full "e" loop:* Open-minded — *Balanced top & bottom on "f":* Organized — *Straight downstroke:* Loner — *No initial stroke:* Direct — *Closely dotted "i":* Attention to details

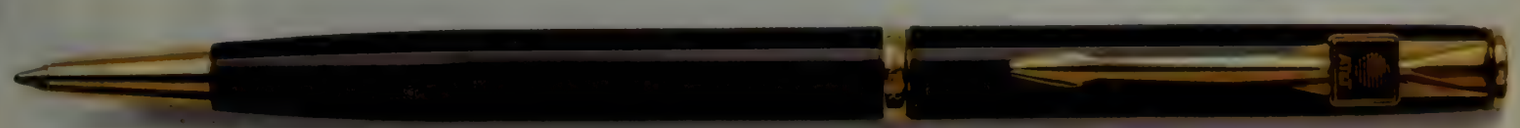


Small loop: Clannish — *A large "k" buckle:* Defiant — *Loop in "l":* Philosophical — *Rounded "m":* Logical thinker — *Flourish on "n":* Sense of humor — *Circle on right side:* Secretive — *Tall upper "p" stroke:* Argumentative — *Breakaway stroke:* Aggressive — *Flat-top "r":* Manual dexterity





Soft "s" ending: Yielding — *Sweeping t-bar:* Enthusiasm — *Final hook:* Tenacity — *Sharp "v":* Analytical — *Short initial stroke:* Temper — *Firm ending:* Decisive — *Full lower loop:* Imagination — *Narrow loop:* Selectivity



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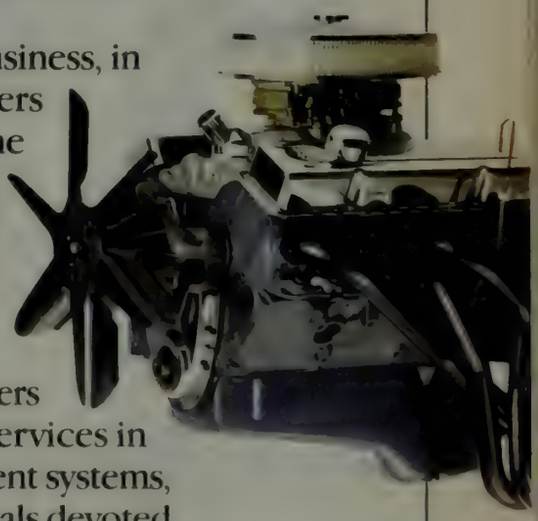

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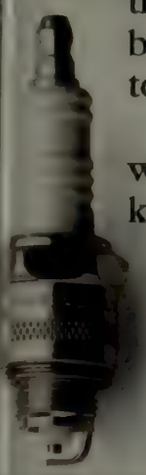

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–KATARZYNA WANDYCZ

Low-beta, sleep better?

WITH THE S&P 500 at 20 times latest 12-month earnings and over twice book value, it's a good time for another look at low-beta stocks as insurance against a big market drop. (Low-beta stocks are those whose prices have historically been less volatile than the overall market.) A year ago FORBES listed ten stocks that we figured would underperform a snorting bull market, but would beat the averages in a bear market *(Aug. 20, 1990).*

In the event, these stocks have fared pretty well in a market that did very, very well. Led by paper giant Kimberly-Clark and banana king Chiquita Brands, the low-beta stocks rose an average 13% through the end of last month, versus 20% for the S&P 500.

If the market at its current level is giving you cold feet, here are a few more stocks with relatively stable price histories. Each has a beta below 1.0, making it less volatile than the market. FORBES screened Value Line to find the stocks.

Atlanta-based American Business Products, a maker of business forms, catalogs and brochures, has a beta of 0.7. Its profits have risen an average 6% since 1986, and the company avoids discounting by selling to a loyal base of small and mid-size businesses. Recent price: 29⅝.

Ralston Purina, the world's largest producer of dry pet food and dry-cell batteries, has a beta of 0.95 and carries Value Line's highest ranking for safety. Recent price: 50½.

Litton Industries, the defense and electronics conglomerate, has a beta of 0.9. Fresh growth should come from Litton's division of oil-field information services, which is already at work in the Persian Gulf and has just signed two contracts in the rejuvenating republics of the Soviet Union. Recent price: 89¼.

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"Much useful advice from a pro."– *Forbes*

Bunker Hunt redux

AT 65, former billionaire Nelson Bunker Hunt is attempting a comeback. He is putting the finishing touches on a huge oil exploration deal with Pertamina, Indonesia's state-owned oil company.

In effect, Hunt is buying a long-term option on some of Indonesia's most promising oil acreage. The 30-year production-sharing agreement would let Hunt International Oil drill on western Sumatra. Hunt is only obligated for three years. But a Pertamina source says that if Hunt stays for ten years he would have to pay up to $30 million, plus royalties.

Nelson Bunker Hunt
An oily new start for the busted billionaire.

Wide World Photos

It's unclear where Hunt, who emerged from personal bankruptcy in 1989, would get such a sum. He still owes $90 million to the IRS from his aborted attempt to corner the silver market in 1980. But taxpayers should be cheering him on: A big Sumatra strike would help pay off that tax liability. Hunt wouldn't confirm anything, saying only, "I don't need the publicity." –JOEL MILLMAN

A game of chicken

A SETTLEMENT is in the works at the bankrupt Al Copeland Enterprises, which owns the Popeye's and Church's fried chicken chains (1990 revenues, $980 million). The big winner: Alvin Copeland, who founded Popeye's in 1971.

Under the yet-to-be-finalized deal, Popeye's creditors—Merrill Lynch and a bank group led by Canadian Imperial—will give Copeland $31 million in cash, five Popeye's stores worth $5 million and a company jet, and forgive $3 million Copeland personally owes the company. Copeland will also retain a contract to provide spices to the chain. In exchange, Copeland will relinquish his 100% equity stake and hand over the secret Popeye's recipe.

The big loser to date: Merrill Lynch. It put up $140 million to finance the 1989 buyout of Church's; under the proposed deal it would end up with a $30 million note and about 80% of the still-leveraged company.

Condolences

HOUSTON pipe and valve distributor Wallace Co. won the Malcolm Baldrige Award for "total quality management" last fall. Too bad. Award in hand, company executives started flying around the country giving speeches. Back home, daily plant tours disrupted factory operations. So far this year, $70 million (1990 sales) Wallace has lost $1 million. In July the board called in company doctor Gail Cooper and made him a consultant. Cooper promptly canceled 50 scheduled speeches and fired several executives who were spending more time talking about quality than delivering it. "When you win an award," counsels Cooper, "set it up in the lobby and go back to work."

John Segal

Debt in the dugout

IS SEATTLE about to lose its Mariners baseball team? The team was purchased in 1989 by radio station entrepreneur Jeffrey Smulyan for $76 million. Security Pacific lent Smulyan $35 million to finance the deal. Smulyan borrowed another $4.5 million against the Mariners from the bank in July. The entire loan is to be repaid by February or he'll sell the club.

Ken Griffey Jr. of the Seattle Mariners
He's safe, but is his team?

Smulyan says the real question is not his shaky finances but whether baseball can work in Seattle. "If this isn't a viable business, I wouldn't want to be here," says Smulyan. His privately held Emmis Broadcasting, which owns all-sports radio station WFAN in New York and other big-city stations, is also heavily leveraged and lost $23 million on $95 million in revenues in the fiscal year ended February 1990 (the last year it reported). Emmis has since sold stations and paid down debt, but it is still struggling. And the Mariners are not generating enough cash to carry their debt.

All this is bad news for Morgan Stanley & Co., which made Smulyan a bridge loan of about $40 million (subordinated to the Security Pacific loan) to help him buy the Mariners. The Wall Street firm currently owns about 25% of both Emmis and the Mariners.

Baseball team, anyone?

Nineteenth hole

EYEBROWS were raised last September when Japanese businessman Minoru Isutani paid a reported $820 million to Marvin Davis for Pebble Beach, the U.S.' best-known golf resort. That was 25% to 50% more than many believed the 5,300-acre resort on California's Pacific coast was worth.

But now Isutani's companies have to repay a $575 million acquisition loan from Mitsubishi Trust & Banking Corp. by Sept. 30. He planned to sell memberships for between $100,000 and $500,000 in the U.S., Europe and Japan to help raise funds. But the California Coastal Commission repeatedly delayed approving the plan to

sell membership.

Can Isutani repay the loan without selling a single membership? Joseph Petrillo, a lawyer for Isutani, says, "I don't know whether he can pay the whole loan off or not." He says Isutani and Mitsubishi are currently in negotiations. "Maybe the loan can be extended or refinanced, or another bank may be willing to step in." Isutani has already prepaid some of the loan, though Petrillo declines to say how much. –JOHN TAYLOR

Get me Fidel

A COUPLE of entrepreneurial Canadian companies are coining money by routing U.S. calls to Cuba. Llamadas Rapidas of Toronto and Appel Inter of Montreal bring calls from the U.S. to Canada on toll-free numbers, and then patch them through to Cuba on Bell Canada's system. (Unlike the U.S., Canada has no economic embargo against the Castro regime.) Each call costs around $25 for the first four minutes, five times what Bell Canada charges these operators for use of its lines. Bell Canada isn't too thrilled with the price-gouging, but the company can't market its services directly to U.S. citizens.

AT&T is not happy about the Cuban situation either. AT&T does provide some limited (and legal) service from the U.S. to Cuba, but less than 1% of the attempted calls ever make it through. The company cannot expand the service on its recently refurbished cable to Cuba because doing so would mean paying Havana a royalty—a no-no under Uncle Sam's 28-year-long economic blockade of Comrade Fidel.

How long the entrepreneurs will last, however, is unclear. The U.S. Treasury recently blocked a similar operation run out of Miami. Treasury officials think that this one, even though it is based in Canada, may also be illegal. –J.M.

Laura Cornell

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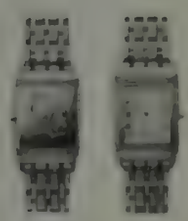

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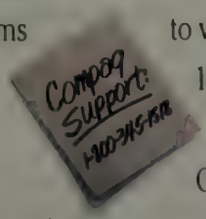

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Make patients pay

SIR: Re Fact and Comment *(Aug. 5)*. The free market alternative, where cost-conscious patients pay directly for their health care and where physicians and hospitals respond directly and efficiently to these consumer demands, will work when the insurance industry provides appropriate, understandable and affordable coverage options, and the U.S. legal system returns to its place as a protector of legitimate rights.
–KIPTON J.V. LUNDQUIST, M.D.
Minneapolis, Minn.

SIR: I vividly recall that, early in the days of my actuarial career, actuaries warned their publics repeatedly that first dollar coverage coupled with a high coinsurance percentage would prove to be unsound, based on the laws of human nature. It has taken this bad egg a long time to hatch.
–DAVID R. CARPENTER
Chairman, President and Chief Executive Officer
Transamerica Occidental Life Insurance Co.
Los Angeles, Calif.

The doctor

SIR: In evaluating the problem of rising health care costs, Frederick Rowe says " . . . [the] 'medical arms race' [has] centered on the financial enhancement of doctors," *(July 8)*. He should concentrate on legitimate reasons costs increase. A heart attack today does not merely mean a bit of watchful waiting, but rather a stay in the coronary care unit, cardiac catheterization, myocardial imaging, and often, coronary artery bypass grafting.

If America desires a return to the "simpler" medical care of yesteryear, so be it; costs will diminish. Let's just understand that "simpler" medical care will not be the type of care Americans have come to expect and, up until now, demanded.
–DAVID P. CARLTON, M.D.
Salt Lake City, Utah

California dreaming

SIR: Your Sept. 2 story on San Francisco's unfortunate antibusiness policies ("Self-destructive lunacy") was 99% accurate. And 1% pretty close. The Agnos administration has exacerbated our local problems by promoting policies that have encouraged some of our large corporate employers—and small enterprises, too—to shift employees and business elsewhere. That's why I am running to replace Agnos in the city election in November.
–TOM HSIEH
San Francisco, Calif.

Andrew P. Stiasny/Image Bank

San Francisco, polish your Golden Gate.

SIR: San Francisco has one of the country's healthiest urban centers. I'll put San Francisco's quality of business life up against that of New York any day of the week.
–DONALD D. DOYLE
President
Chamber of Commerce
San Francisco, Calif.

SIR: I hope that our elected leadership will soon learn that lower taxes will stimulate business and that we should reduce the amount of regulations and rely on supply and demand to help San Francisco's growth within carefully planned limits.
–RONALD KAUFMAN
San Francisco, Calif.

SIR: The city is dominated by financially well-heeled anarchists.
–MICHAEL RADDIE
San Rafael, Calif.

SIR: FORBES is right about one thing: San Francisco voters did in 1986 enact controls on downtown construction to protect the city's quality of life from unbridled growth and development. Now if we could just figure out how to regulate unbridled bias at FORBES magazine.
–ART AGNOS
Mayor
San Francisco, Calif.

SIR: During my 20 years of operating a business in San Francisco, I have seen time and time again the city and its bureaucracts throw roadblocks in the way of entrepreneurs and corporations. I would advise any company to steer clear.
–EDWARD S. ABBOTT
Chairman
Abacus Capital Corp.
San Francisco, Calif.

SIR: I personally am proud to live and raise a family in a forward-thinking city that is, in its own clumsy but democratic way, tackling many of the tough issues that Peoria will not be able to avoid much longer.
–NIELS ERICH
San Francisco, Calif.

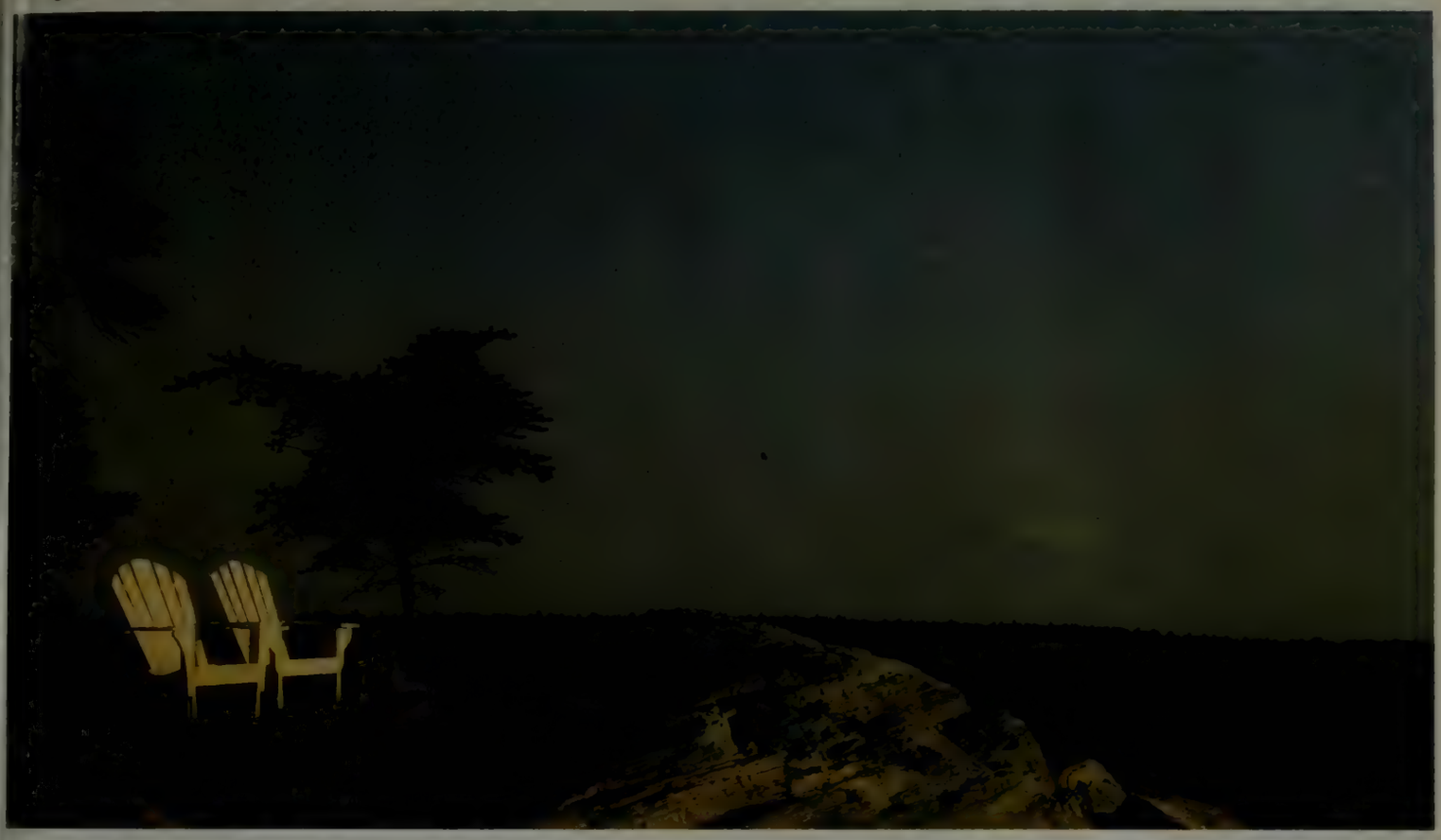
Less, not more

SIR: For more than a decade we have been divided on how to respond to the competitive threat of Japan. Our government has been actively putting the pressure on Japan to open up its markets, to play by "our rules." The best approach may be to call upon the government to do *less*, and remove obstacles upon our competitiveness, like our outdated antitrust laws.

In contrast, Japanese businesses align themselves into business families, which also have close ties with government. The Japanese recognize that it's just too expensive for one company to assume all the risk on its own to develop and produce a new technology.

While revising our antitrust laws may not be the complete answer to our trade imbalance, it will give U.S. companies a needed edge to develop new technologies, tap new markets and increase sources of funding.
–WILLIAM OLSTEN
Chairman
Olsten Corp.
Westbury, N.Y.

Photographed on Mt. Desert Island, Maine



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"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

BONDS AND STOCKS

EVEN THOUGH THE economy shows some signs of new life, interest rates will be coming down further. Commodity prices are still weak. The most important barometer of all, gold, is still low. Bondholders can expect further gains.

Stockholders can, too. Businesses continue to slash costs; the recovery next year will swell many bottom lines.

A federal tax cut, particularly capital gains, combined with this downward interest rate trend, would give the economy a powerful, noninflationary takeoff.

BONELESS BANKING BILL

THE BANKING BILL making its way through Congress has a glaring, fundamental omission: reforming the flawed federal deposit insurance system, which gave us the S&L disaster.

The U.S. banking industry should have been downsizing during the 1980s as it faced growing competition from the commerical paper market, money market funds and other instruments and institutions. But thanks to deposit insurance, it grew. Banks could easily raise funds for speculation; depositors didn't care what happened to their money since its safety was guaranteed by Uncle Sam. Normal market restraints went out the window.

Representative Charles Schumer (D–N.Y.), member of the House Banking & Finance Committee, has a proposal that would add real meat and bones to this jellyfish legislation. Under this plan, banks with federally insured deposits would be barred from making any one loan in excess of 4% of their capital. And the interest these institutions could pay on federally insured deposits would be capped at 105% of the Treasury bill rate. The ceiling would prevent banks from luring depositors with juicy, above-market yields, which is just what hundreds of them did during the 1980s. The floating cap would also avoid the havoc that low, fixed rates wrought in the 1970s. If they wish, banks could set up noninsured affiliates to escape limits on interest rates and loans.

Another possible reform legislators could examine is to have banks invest federally insured deposits in short-term instruments, just as the money market funds do. Money for other loans would have to be raised by banks without a federal guarantee. In the absence of such changes, American banking will remain rickety.

WHY ISN'T THE ADMINISTRATION

reexamining plans to reduce our defense forces by up to 25% over the next five years?

The Gulf war should have triggered such a rethink. That crisis underscored how lethally volatile parts of the world remain. If the need arises, shouldn't we have the capacity to respond, as we did so brilliantly earlier this year?

Russia's Glorious Revolution may lead to the emergence of several democratic nations. But what if Russia follows the path of the French Revolution after 1789? Given the Empire's autocratic tradition, and its worsening economy, shouldn't we hedge our defense reduction bets?

The Administration must also loudly sound the tocsin about the need to rapidly develop effective missile defense systems. Scores of nations will have nuclear and chemical missiles within a decade or two. Political upheavals are coming in China; what fingers will be on its nuclear triggers?

The Senate has passed a bill authorizing deployment of ground-based interceptor missiles by 1996; peaceniks were dismayed by the apparent victory of missile defense advocates. But, in reality, the Nunn-Warner SDI compromise doesn't go far enough.

The tide of democracy has never been stronger. An effective U.S. defense posture will strengthen this wave by making it clear that the forces of darkness, à la Saddam, have no hope of success.

DISCARD THE CARTEL

SALOMON BROTHERS' Treasury auction scandal has brought to light the archaic way our government sells its securities. A few financial firms, handpicked by the Federal Reserve, are each allowed to bid for up to 35% of the bonds offered at each auction. They, in turn, peddle the paper to the public.

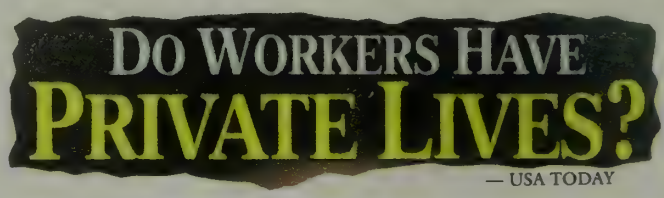
Given the size and depth of the Treasury market, which totals $2.3 trillion with an average daily trading volume of almost $125 billion, why do we need this closed system of "primary dealers"? Why not break up the cartel and let the Treasury Department accept direct bids from any major investors, such as mutual and pension funds, foreign central banks or even well-to-do individuals? There is always a market for U.S.-backed securities. That's why people complain about the size of the deficit: Treasury paper is always first in line, crowding out other investments.

Washington should also abolish the 35% limit. If a customer wants to bid for all the securities Uncle Sam offers at an auction, let him. Commentators are forgetting that to win you have to pay a higher price than your competitors. A higher price means a lower interest rate. The taxpayer comes out ahead.

More regulation isn't needed in this particular market. More openness is.

NO TO WORKPLACE NANNIES

IT'S AN OUTRAGE that a growing number of companies are intruding into the personal habits of their employees. They want to know, for instance, if a worker is a smoker or a social drinker or rides a motorcycle. If so, he or she might have to pay extra for health insurance. Some outfits are even going so far as to prohibit workers from smoking or drinking or eating too much outside the workplace. They give urine tests—if there is evidence of smoking, for example, the employee is fired. Companies justify this Big Brotherism by pointing to rapidly rising health insurance costs. Because employers pay the premiums, they supposedly have the right to monitor your health-related habits.



Twenty-two states have responded by outlawing discrimination against people who smoke off the job. Other states should follow suit. Companies have no business prying into employees' personal habits unless they are truly related to job performance.

This trend of companies' trying to police lifestyles is another powerful argument for fundamentally changing the way we finance health care. Employees, not employers, should get the tax breaks for health insurance premiums. That way, individuals could make their own choices. If they want to smoke, they will presumably pay higher premiums. But that should be the individual's decision.

The current system of paying for health care encourages all the wrong habits—consumer indifference to cost, more regulation and price controls, health care rationing and, now, corporate nannyism.

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AT LAST, JUSTICE

PROFESSIONAL BASEBALL has removed the notorious asterisk from the record set by Roger Maris in 1961 for home runs hit in a single season. Baseball justified the asterisk because Maris hit round-trippers in a 162-game season, while Babe Ruth's season ran 154 games. The real reason was that baseball writers and the then-baseball commissioner loved the Ruth legend while they personally disliked the allegedly moody Maris.

In trying to belittle Maris' feat, they demeaned themselves.

Kudos to current commissioner Fay Vincent, the catalyst for righting this wrong.

RESTAURANTS—GO, [illegible], STOP

These reviews are the distilled wisdom of brothers Bob, Kip and Tim, and Associate Publisher Jeff Cunningham.

● **La Réserve**—4 West 49th St. (Tel: 247-2993). Classic French restaurant tucked in between the granite towers of Rockefeller Center; worth the effort. Grilled tuna with a hint of green peppercorn sauce is particularly good. For dessert, have the tarte tatin, which is named after the family who created it by accident and found that it was a great hit among guests.

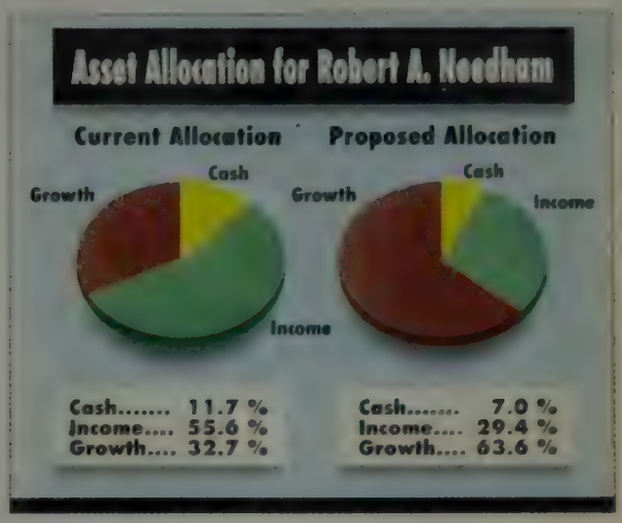
● **Trattoria Dell'Arte**—900 Seventh Ave., between 56th and 57th Sts. (Tel: 245-9800). Delightfully stylized Italian family-style cooking. Try the hand-rolled spaghetti with roasted garlic. Those eating as if it's their last meal must have the chocolate macadamia torte.

● **Prix Fixe**—18 West 18th St. (Tel: 675-6777). Salmon tournedos in a horseradish crust is almost worth a special visit. One dessert, Variations of Chocolate, has enough goodies on the plate to keep even a chocoholic happy.

● **Arqua**—281 Church St. (Tel: 334-1888). Decor and service only so-so; more important, so's the food. One item that does hit the spot is the pappardelle with shitake mushrooms.

● **Harry Cipriani**—781 Fifth Ave., between 59th and 60th Sts. (Tel: 753-5566). It's back in its old Sherry Netherland's spot—and so are the crowds of Euro-cash and affluent oldies. One mystery: how some of these venerables are able to negotiate the drop into the very low chairs. But the Italian food is worth the risk. Go here to eat; the acoustics render conversation impossible. ■

Where do you want to be in 10 years? Driving a golf ball? Driving your own business? Maybe even driving the Paris-Dakar rally.



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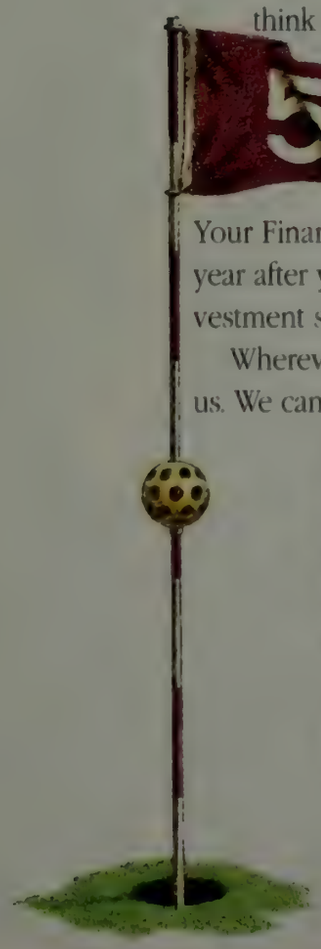

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SHEARSON LEHMAN BROTHERS

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Other Comments

Double Trouble

BORIS YELTSIN and the U.S. domestic policy agenda have something in common. President Bush doesn't relish dealing with either of them.
–FRED BARNES, *New Republic*

He Was Right—And How!

IF ONE WERE to choose the man of the hour in post-Communist Europe, his name might well be Woodrow Wilson. For he was the President who memorably informed Congress in 1918 that "self-determination is not a mere phrase. It is an imperative principle of action which statesmen will henceforth ignore at their peril." Wilson, who died defeated and embittered, has earned the epitaph bestowed by Londoners on Sir Christopher Wren: If you wish to see his monument, just look around.
–KARL E. MEYER, *New York Times*

A Losing Gain

THE 1990 budget agreement included a number of excise taxes on "luxury items" aimed at purchasers of high-end automobiles, yachts, private aircraft, furs and expensive jewels. Congress' Joint Committee on Taxation estimated their combined effect to be a revenue gain of nearly $1.5 billion over the five-year life of the budget agreement.

Less than a year after enactment of these luxury taxes, however, the impact of the boat, plane and jewelry luxury taxes is to throw more than 9,000 Americans out of work and to cost the federal government nearly $20 million in 1991.
–REP. RICHARD ARMEY, (R-Tex),
Ranking Republican,
Joint Economic Committee

Back to the Drafting Board

THE BIGGEST high-tech hazard [recently] was the menace of the swallowed Constitution. Just days before the final vote July 4 on Colombia's new Constitution, a technician who was storing the final draft in a borrowed computer erased or lost the document. Members of the drafting committee were reportedly rooting through trash cans looking for notes and preliminary drafts. Now repeat: Print out, early and often.
–AMY BERNSTEIN,
U.S. News & World Report

Prophetic Genius

IN AN IRONIC SENSE Karl Marx was right. We are witnessing today a great revolutionary crisis—a crisis where the demands of the economic order are colliding directly with those of the political order. But the crisis is happening not in the free, non-Marxist West, but in the home of Marxism-Leninism, the Soviet Union. It is the Soviet Union that runs against the tide of history by denying freedom and human dignity to its citizens.

What I am describing now is a plan and a hope for the long term—the march of freedom and democracy which will leave Marxism-Leninism on the ash heap of history as it has left other tyrannies which stifle the freedom and muzzle the self-expression of the people.
–RONALD REAGAN, to the
British Parliament, 1982

This problem [the Salomon Brothers scandal], and the way it was resolved, with three top people losing their jobs, will do more to prevent future abuses than any piece of legislation which could be introduced.
–VICTOR CHANG, former
bond market executive,
head of an investment firm,
New York Times

You Made Me Do It

"THERE'S A WIDELY held view that if something bad happens to you, someone else must be responsible," says Roger Conner, the director of the American Alliance for Rights & Responsibilities in Washington. The United States is becoming a nation of belligerent shirkers, of pouting, mewling, finger-pointing crybabies.

Take the frat-house drug busts in March at the University of Virginia. When the father [of one of the students arrested] learned of the charge, was he furious at his son for jeopardizing his future by breaking the law? No. The father's wrath was instead directed at the police. "Why didn't the investigators go to the University of Richmond or Norfolk State?" he asked indignantly.
–JOHN TAYLOR, *New York*

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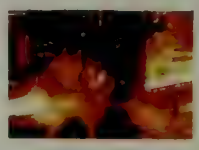

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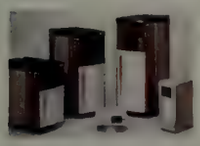

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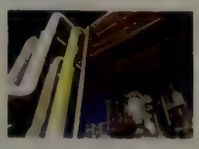

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

REEXAMINING OLD CONVICTIONS—OR HOW I SPENT MY SUMMER

A MAINE SUMMER is a wondrous thing. The tides, the weather cycles, the clarity of the night sky, dawn emerging over the ancient Sound, indeed all of the physical splendors of the countryside we notice less as time passes. But the slower pace and the longer-range, more detached perspective (aided by the usual delay in receiving major newspapers) are the most significant aspects of a Maine summer for one who writes on short notice about the world's great events.

Anxious to see if the summer's leisurely pace would change opinions forged in the heat and turmoil of daily changes, I looked back at some old columns. Thus far I have found no basis for changing those on the Gulf war.

Seven months ago we celebrated one of the most sweeping military victories in our history. I wrote then that I felt our only mistake was in stopping too soon. We had a glittering opportunity to depose Saddam Hussein and replace him with a largely Arab army of occupation. I must say that the more time there is for reflection, the more convinced I become that this should have been our course. Almost daily we and the United Nations seemed to be increasingly shocked by continuing revelations of Iraq's perfidy.

There was Saddam Hussein's refusal to let the U.N.'s nuclear inspectors examine Hussein's claims to have no nuclear capability—until he moved some damaging evidence. Finally, under threat of renewed bombing, he admitted that, yes, he had manufactured some weapons-grade plutonium. Other critical components of the weapons cannot yet be found. Further, this plutonium, which is only used in nuclear weapons, was made in facilities listed by the International Atomic Energy Agency as "safeguarded." Well, not quite.

The *Wall Street Journal* correctly concluded, "The next time the United States wants to put a tyrant out of the bomb business, it had better be prepared to occupy his country with troops and make a house-to-house search."

And unoccupied Iraq is asserting its "sovereign right" (backed by some 18 to 20 divisions and 700 tanks left after the Gulf war) to object to the very generous U.N. resolution allowing Iraq to sell some oil, with only 30% of the proceeds to begin reimbursing Kuwait. The balance would be under U.N. control to ensure that the money is actually used to feed hungry Iraqis. Why should Iraq even be heard? Yet the more Iraq objects, the more likely it is that some compromise will allow Saddam Hussein to use some of the proceeds as he wishes.

Even after seven months' reflection there is no valid answer as to why Iraq was not occupied by the victors. Initially, we were told by deep geostrategic thinkers that "stability" in the Mideast required a strong, independent Iraq. But a strong Iraq still under the complete domination of Saddam Hussein? Even the shallowest of geostrategic thinkers does not support that.

It was said that the American people would never support a long occupation of Iraq. But for nearly 40 years we supported American troops in the two countries defeated in World War II. Further, it would not have been an American army of occupation. Our Arab allies would have been far more appropriate as the occupying forces in another Arab country.

In short, neither the reflection of several months nor the calm contemplation induced by a Maine summer has led to any explanation or understanding of why Saddam Hussein is still the dictator of Iraq. Neither peace nor stability is possible in the Mideast until he is deposed.

REFORMING OUR LEGAL SYSTEM

ANOTHER FIRST IMPRESSION that has survived is that the President's Council on Competitiveness, chaired by Vice President Quayle, has many of the right answers in its proposal of 50 long-needed reforms to reduce the huge sums wasted each year in the flood tide of litigation that engulfs our courts. This plethora of lawsuits adds greatly to our costs of production and reduces our competitiveness worldwide. Plaintiffs' attorneys, many of whom promote this mass of litigation, profit. No one else does.

This is not to say, as Shakespeare phrased it, "Let's kill all the lawyers," but it is to say that we have too many lawyers chasing too many dollars through too many endless lawsuits, and that it is time to do something about it. The outgoing president of the American Bar Association found this hard to accept, but that should not diminish the gratitude of the American people to the Vice President for telling us what needs to be done. ■

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Sometimes faith alone won't cut it

HOW MUCH FURTHER is this year's steady decline in interest rates likely to go? Political pressure will increase on the Federal Reserve to keep easing, as the 1992 election date gets nearer, to add life to the economy's lethargic recovery. But that pressure and the short-term rate cuts that will probably follow may increase the market's jitters about the long-term course for inflation.

Right now the inflation front looks bright. Most economists now expect the underlying rate of consumer price inflation, excluding food and energy, to be around 3.5% in 1992. This so-called core rate has in the last six months been running barely above this pace. And the prices of producer goods, which eventually feed into consumer prices, have been declining.

Oil prices, too, seem headed down. Iraq is now expected (finally) to be allowed to export some crude, and Saudi Arabia has built up stocks of 60 million barrels, with the deliberate idea that this will help push crude prices down to around $18.70 a barrel, down from a recent $21.30, and so encourage extra demand.

But the yield curve—the relationship among interest rates on Treasury debt securities of various maturities—is saying clearly that the credit markets do not believe we have yet whipped inflation. The curve has been flattening, but with the 30-year long bond still yielding 8%, the difference between very short and very long rates remains well over 250 basis points, much higher than the 160 basis point average since 1986.

"That shows that inflation fears still persist and that investors are not convinced that they can let down their guard," says John Lonski, senior economist with Moody's Investors Service.

There is also concern that the recession did not bring inflation down further, and that companies—notably automakers, despite their business' still being in a slump—are willing to push for 9%-to-11% price increases. Labor costs (mainly health benefits, but to an extent hourly wage rates too) are also ticking up.

The markets are wary that what happened in 1986 and 1987 might be repeated, says Lonski. Back then, oil prices went through the floor, consumer inflation fell to around 1% or so, and long bond rates fell to 7.25%, down from 9.5% in early 1986. But by the middle of 1987, after cheap oil encouraged faster economic growth, long rates moved up sharply, to around 10%, Lonski says.

The implication is that lenders will not be content with a 3% premium to protect their capital against inflation, a spread that would give 6.5% long bonds in 1992. Instead, most traders seem to think the market will demand something close to today's 4% spread, giving a floor for long Treasury rates of around 7.5%.

Sales tax nightmare on Main Street

BROKE STATE AND LOCAL governments are auditing more and more businesses—not just retailers—to find unpaid sales and use taxes. And they are levying sales taxes on more and more items, sometimes confusingly so. In some places sales taxes at varying rates have been added to such items as long-distance telephone calls, automobile leases and previously exempt business-to-business services. Pennsylvania, for example, is to tax computer services from Oct. 1.

Perhaps the most ridiculous extension is California's new snack tax. Under it Ritz crackers are deemed taxable, but saltine crackers are not.

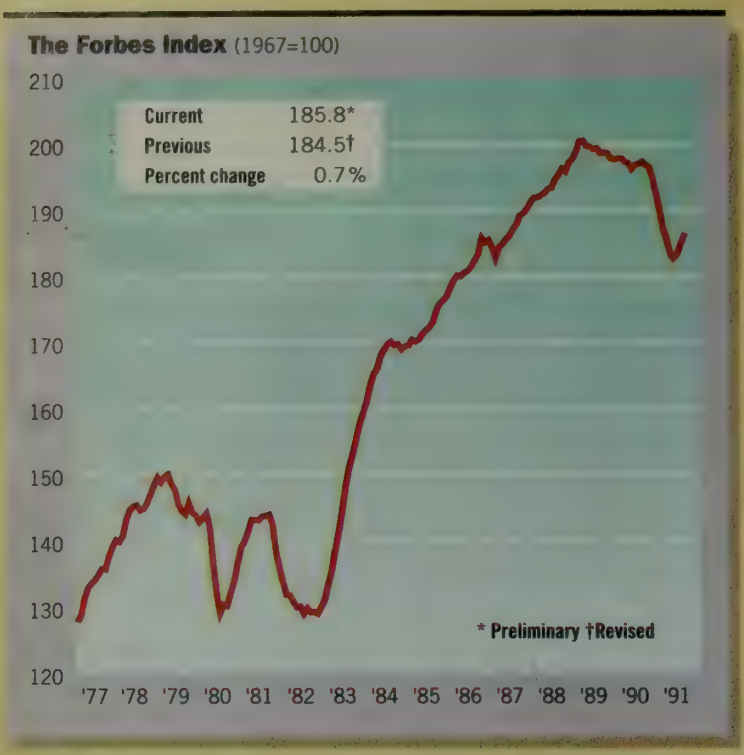
"Compliance is becoming much more complex as the states expand their sales taxes," says AT&T tax attorney James Kratochvill. And more costly. AT&T employs 76 people to file 9,000 sales and use tax returns each year. They also handle the 200 sales tax audits it is presently undergoing, up by about 30% from the mid-1980s.

There are now over 9,000 state and local sales taxes, up by more than 1,500 since 1986, according to Vertex Inc., a Berwyn, Pa. company that sells a software package to cope with this proliferation. Generally, a business must collect sales taxes on goods sold in another state if it has a presence—say a salesman—there. But some states are trying to collect even from companies that sell from catalogs into their states. This contradicts Supreme Court precedent and the High Court is likely to take another look at the issue this year. A national survey of 444 companies conducted for Vertex found that on average these companies had undergone sales tax audits by three different states in the previous 12 months. In 84% of the audits, the states demanded more money. By a wide margin, California is reported to be the most aggressive.

Typically, it costs these businesses 2.1 cents to collect each sales tax dollar. But audits and audit assessments raise that cost to 16 cents of each dollar of sales tax, and more, for smaller companies. "Sales tax compliance," observes Jon Riewe, Vertex vice president for research, "is not something they teach in M.B.A. courses." They don't, but they should. —JANET NOVACK

THE FORBES INDEX

BY TIMOTHY DODMAN



Since peaking in December 1990, personal interest income has declined every month, led down by falling interest rates. According to Banxquote of Wilmington, Del., average yields on three-month certificates of deposit dropped from 6.9% at the end of December, to 5.2% currently. If the recovery gets off the ground, the decline in interest rates may be about over. In August nonfarm payrolls showed their first gain in three months, an increase of 34,000 workers. But the unemployment rate remains at 6.8% of the eligible work force.

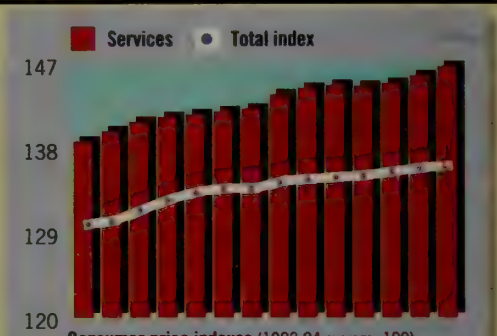
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales year to date vs 1990[1]	Ward's Automotive	-11.2%
Index of leading indicators July vs June	Dept of Commerce	1.2%
Trade balance 12 months ended June 1991	Dept of Commerce	-$84 bil
All-commodity producer price index July vs June[2]	Dept of Labor	-0.3%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	-0.1%
M2 (3-month change)—annualized growth[3]	Federal Reserve	-1.5 %

[1] U.S.-based manufacturers, excludes imports, as of 8/30/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

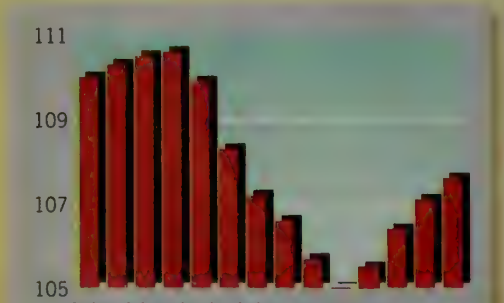
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income and total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

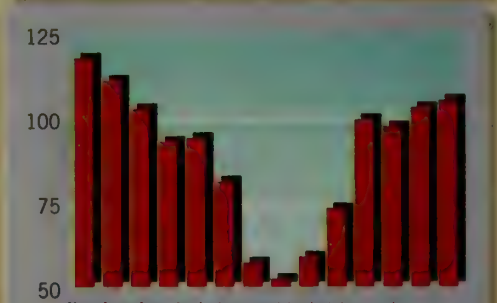


Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

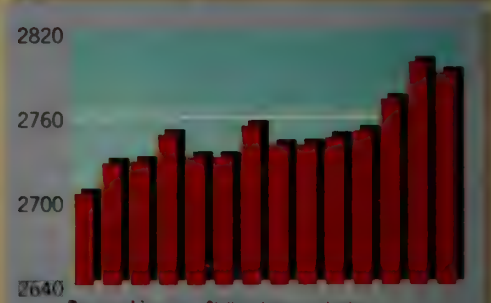
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



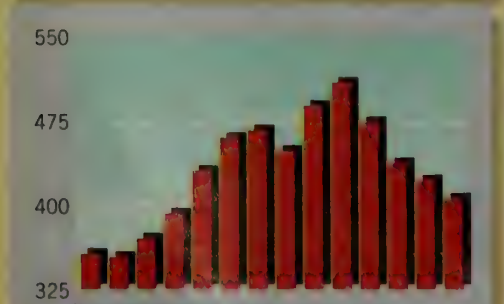
Industrial production index (1987=100) seasonally adjusted (Federal Reserve)



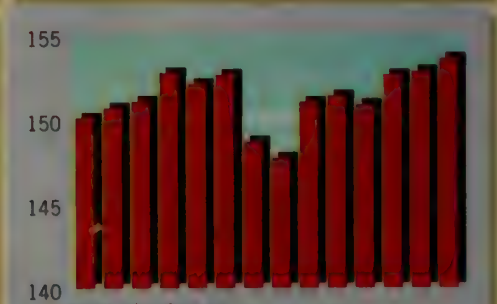
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



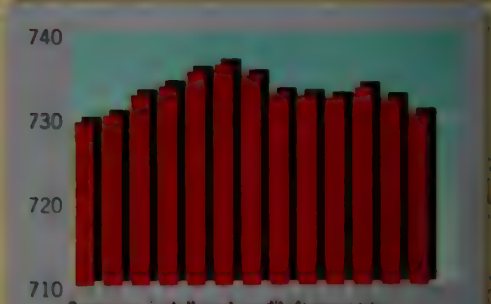
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total seasonally adjusted (Federal Reserve)

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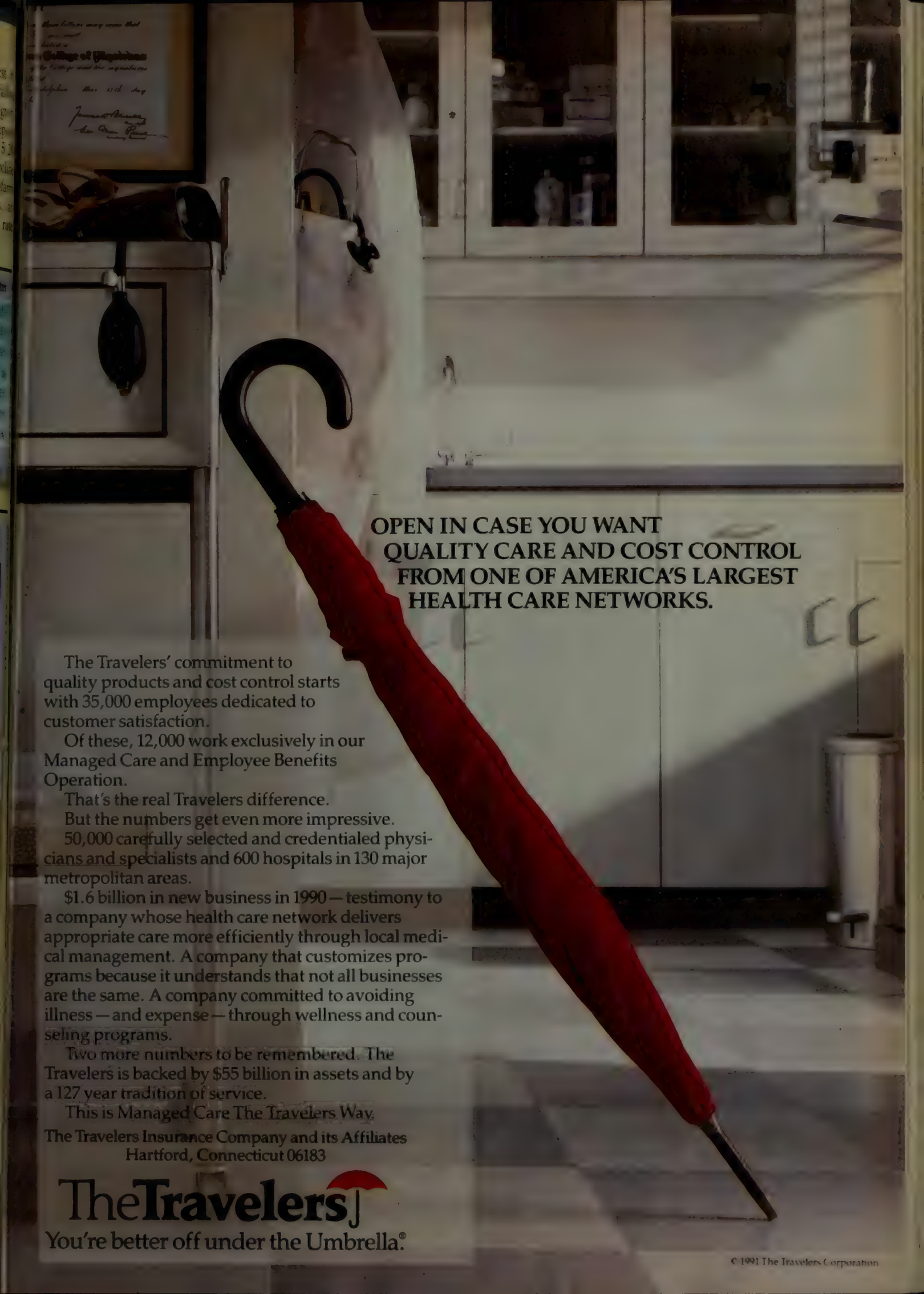
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Good news about the collapse of the Soviet empire is bad news for defense contractors. Now the Seawolf submarine program, vital to both General Dynamics and Tenneco, is in trouble.

Seawolf at bay

By Howard Banks

WORRIES MOUNT for defense contractors. Now the U.S. Navy's plans for a new high-technology attack submarine, the Seawolf, planned to be in service in 1995, have hit a reef.

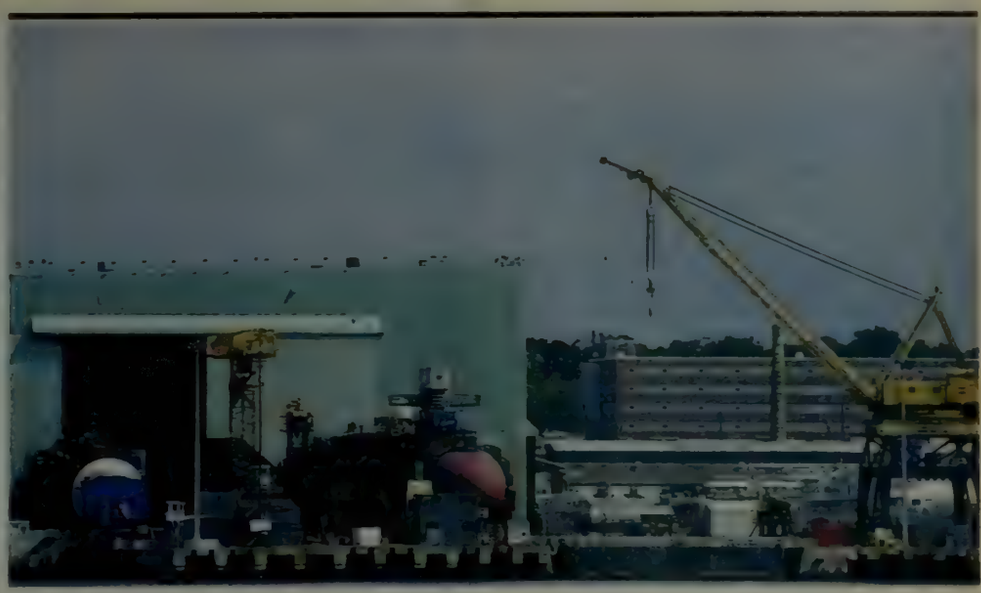
Worries are growing at the two yards capable of building the sub—General Dynamics' Electric Boat unit in Groton, Conn. and Tenneco's Newport News, Va. shipyard. If not canceled, this program vital to their futures will be stretched out.

The Seawolf class is a central element of the Navy's main war plan: an all-out battle for the North Atlantic with the Soviet Union. It provides for 88 nuclear attack subs, 14 to be maintained on battle station.

The Navy hoped to order three a year of the new 9,070-ton SSN21 Seawolf subs, at $2 billion a copy (in 1992 dollars). Gradually the Seawolf would replace the 62 Navy 6,900-ton SSN688 Los Angeles class subs,

What the U.S. Navy says its new $2 billion 9,070-ton SSN21 Seawolf attack sub will look like

Bigger than the 6,900-ton Los Angeles attack sub it will replace, Seawolf will be twice as costly but will carry more powerful weapons and will be more maneuverable and stealthier.



GD's Electric Boat yard, Groton, Conn. **Will General Dynamics close it if the Navy cuts orders to below one new Seawolf a year?**

which cost less than half as much each.

But does the Navy need the program now that the U.S.S.R. is going out of business? Will sovereign nations like the Ukraine and Russia and Armenia pose anything like the naval threat the old Soviet Union did?

The collapse of communism isn't the only blow to the Seawolf program. Another is a messy contract dispute, now in the courts. The $725 million contract to build the hull for the first Seawolf was awarded to General Dynamics' Electric Boat unit. The Navy awarded the second Seawolf contract to Electric Boat because its bid was cheaper than that of Tenneco's Newport News. But Newport News yelled foul, complaining that the Navy had considered only price and had not taken into account the impact on the U.S.' industrial base—meaning jobs—at Newport News. A federal court ordered the Navy to rebid the second contract and the Navy is appealing.

Another wound to the Seawolf program is the widely reported problem with weld cracking on the first Seawolf being built at GD's Electric Boat. It will cost only between $50 million and $100 million to fix this. That's not frighteningly much in the cost-is-no-object world of defense contracting. But it will delay the first Seawolf for at least a year.

Congress has other complaints about the Seawolf program. A large part of the package is a complex battle management and surveillance computer system called BSY-2, or "Busy Two." General contractor on the BSY-2 system is General Electric.

The computer system's total cost isn't known ("in the billions," says Ronald O'Rourke, a naval analyst with the Congressional Research Service), and its technology is still miles from being completed. Likewise, development of the new torpedoes, mines and missiles that are to be carried by Seawolf is still a long way from being completed, and no cost estimates are available. Critics say BSY-2 and the weapons could lift total cost of a single Seawolf to $3 billion or more.

A different kind of threat to Seawolf lurks in the form of a paper submarine called Centurion. This is a smaller attack sub than Seawolf, and therefore would be cheaper—perhaps $1.5 billion a sub, according to its proponents. Centurion will not be able to do all the missions of Seawolf, but it could do most missions. Centurion would probably end up costing more than its proponents claim. But the mere fact of its existence on a drawing board gives those who want to cancel Seawolf a way out.

None of this is good news for General Dynamics. Submarines are an increasing share of the group's total business—around 18% of sales this year, up from 16% in 1988, and an expected $85 million of operating profits, up from $36 million. With sales of its F-16 fighter and M1A1 tanks already slated for future cuts by Defense Secretary Dick Cheney, "submarines were headed for a significantly greater than 20% share of sales by the mid-1990s," says C.J. Lawrence aerospace industry analyst Howard Rubell.

The controversy over Seawolf will be colored by a noisy debate about defending the U.S.' military-industrial base. For politicians, this mostly means jobs. Electric Boat's employment, at around 23,000, is already slated to decline to around 11,500 by 1996 or so—and that assumes some new Seawolf business.

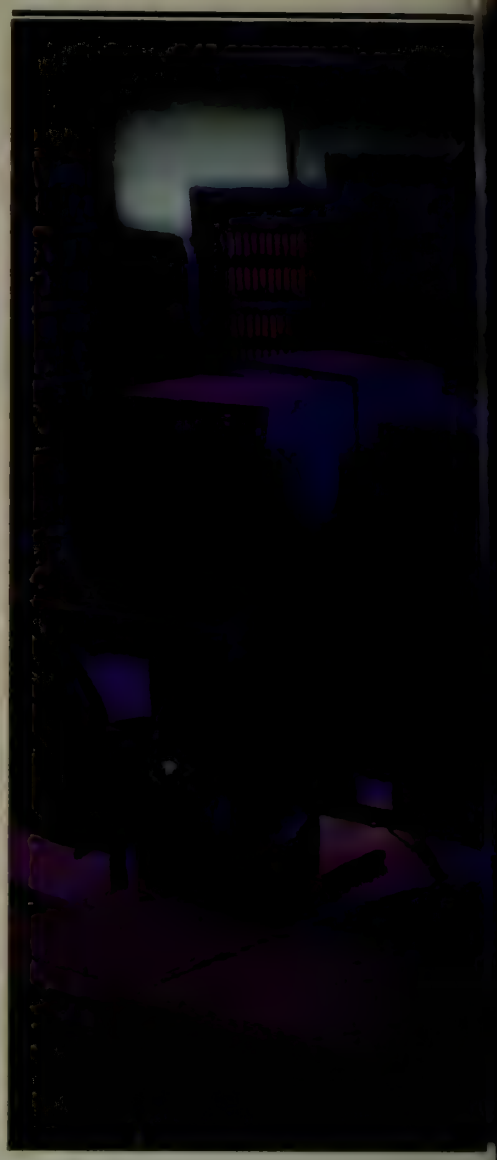
GD has said loudly and clearly (and often) that it cannot continue making nuclear submarines with less than one new order a year. Today it is delivering three a year (two 688 attack subs and one Trident). If the order rate dropped and GD closed down Electric Boat, the U.S. would then be reduced to just one shipyard—Newport News—capable of building nuclear ships. (With its carrier work, Newport News could continue to operate with close to one new sub order a year.)

The case for slashing spending on submarines isn't as cut and dried as it might appear to those who get their news from TV or newspaper headlines. The Soviets may have cut production of planes, tanks and missiles, but they are said still to be launching nine nuclear subs a year. Until it is clear that the Soviet admirals have sharply reduced their sub launchings, no congressman in his or her right mind will walk completely away from building U.S. nuclear subs. Even Senator John McCain (R–Ariz.), a leading critic of Seawolf, accepts that he doesn't have the votes to cancel Seawolf. But there is little doubt the program will be stretched out. ■

The Baby Bells yearn to be in manufacturing, information services, long distance and cable TV. Here's a utility that's already doing all that—and profitably.

Country cousin

By Gary Slutsker



THE REGIONAL Bell telephone companies have undertaken a monstrous legal and legislative battle over the right to diversify into coveted sidelines: cable TV, telephone equipment manufacturing, long-distance traffic and information services. While these giants busy themselves with lobbying and litigation, they are being upstaged by a little-known but heavyweight outfit called Alltel Corp. in the unlikely setting of Little Rock, Ark.

Alltel, unaffected by the consent decree that broke up the old AT&T, has already diversified into manufacturing, long distance, cable and computer software. It has done so quite profitably, making a stark contrast to the disappointing diversification efforts made so far by its giant Bell cousins (Nynex in computer retailing, Ameritech in software).

Alltel's basic business is local phone service, furnished to 1.2 million customer lines in 25 states. But Alltel has also invested in long distance, cable TV, cellular, product distribution, phone manufacturing and information services. This year it will likely earn around $200 million on revenues of $1.7 billion. Five years ago profits were $56 million on revenues of $700 million.

As one might expect from a serious business with a Little Rock address, Alltel bears the influence of local financier Jackson Stephens, whose family-owned investment firm Stephens Inc., operating out of a sleek new office tower downtown, has underwritten such Arkansas enterprises as Wal-Mart and Tyson Foods. "Jack Stephens? He's helped us a lot," says Alltel Chairman Joe T. Ford with characteristic understatement.

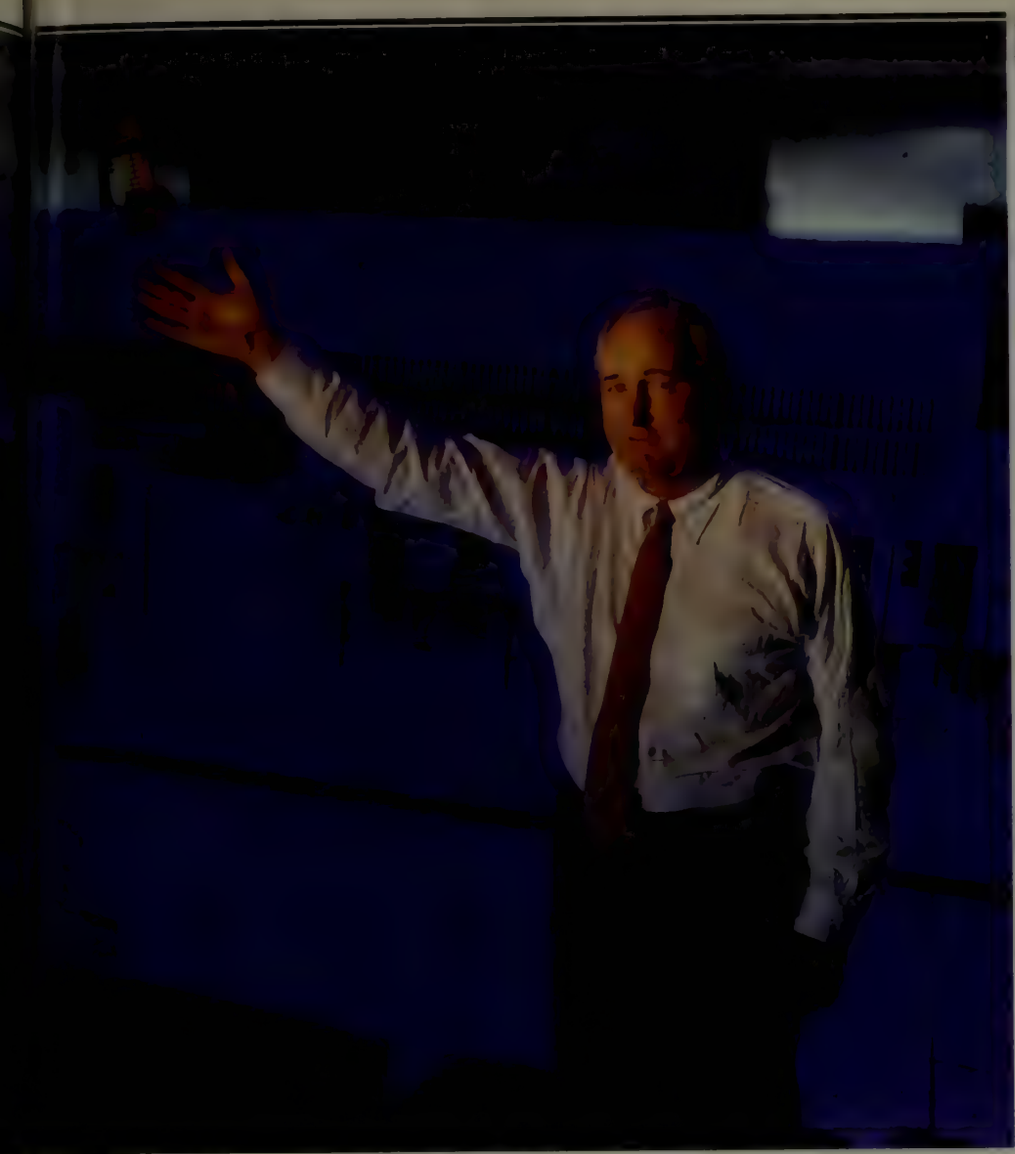
Alltel's predecessor, Allied Telephone, was started in the 1940s as a construction firm that installed telephone poles, among other things. When the founders expanded into the phone business, they did so by acquiring a 275-phone exchange from Jack Stephens and his brother Wilton. When Alltel got into information services last year, it bought a Little Rock neighbor, computer services provider Systematics Inc., in a stock deal worth $500 million.

In that acquisition, Alltel had a good negotiating tactic: Jack Stephens, who had put up the seed capital for Systematics in 1968 and remained its largest shareholder, refused to sell his shares to anyone but Alltel. Today, his firm's 10% stake in Alltel, worth $330 million, makes it the largest holder.

Like most phone companies, Alltel has had the diversification bug because growth in its core business has been slowing. The biggest source of revenue for any phone company is access charges. These are the charges long-distance providers and consumers pay for the right to use a local phone network. The problem for a company like Alltel is that access charges, which amounted to $358 million last year for Alltel, will likely keep shrinking, as regulators apply political pressure and as new technology lets long-distance customers bypass the local network (FORBES, *Mar. 18, 1991*).

Despite the slow growth in its basic utility business, Alltel keeps investing there. It has spent some $90 million over the last year buying shares in local telephone companies. It spent $270 million installing things like digital switches and fiber optics. The payback will come in increased efficiencies, not in vast amounts of new business.

Alltel's big Bell cousins aim to engineer some earnings growth by convincing rate authorities to switch from rate-of-return regulation to a more flexible "incentive" system in which customers and investors would share the benefits of cost-cutting measures, such as cutting the payroll. But Alltel isn't much interested in this regula-



Alltel's Joe Ford in computer center at Systematics

Message to banks: We'll take a big liability off your hands—your computer department payroll.

tory change. It doesn't think it would gain much, because it is already lean: Staff at the Little Rock headquarters consists of 46 people out of 11,400 total employees.

In diversifying, Alltel has mixed some Arkansas shrewdness with a sharp eye on the future. Other phone companies have borrowed heavily to buy cellular properties in big cities. Instead, Alltel horse-traded some of the original licenses its phone subsidiaries received as the local service provider to accumulate positions in better markets. It traded out of Rust Belt cities like Youngstown and Steubenville, Ohio, and Wheeling, W. Va. to get bigger chunks of partnerships in growing Sunbelt cities such as Augusta and Savannah, Ga. and Charlotte, N.C. Cellular is still small—only $75 million in revenues this year. But the business is growing at a rate of 80% this year and has just turned its first operating profit.

The cellular strategy has left more cash for other investments. In the mid-1980s Alltel bought into a 1,200-mile long-distance fiber network in Florida called Microtel. The Florida carrier merged to become part of a fast-growing, regional long-distance company called Advanced Telecommunications Corp. Alltel's 26% share in the public company is worth $100 million, a nice return on an estimated $10 million investment.

Some investments have done better than others. Alltel bought an outfit that provides phone and cable TV service—on separate wires—to residents of the Navajo reservation in New Mexico. The company also picked up a piece of Comdial Corp., a manufacturer of telephones. However, the Comdial stock is on the block.

Then there is Systematics. Nestled on a handsomely landscaped 46-acre site in Little Rock, Systematics has for 24 years been quietly building a business of running data-processing operations for banks. The competition is mostly EDS—the computer unit of General Motors—and IBM, yet Systematics has managed to accumulate 1,000 customers, including Manufacturers Hanover, Republic National Bank and California Federal Savings & Loan. Sales are growing at around 50% a year and will approach $400 million this year.

Systematics is benefiting from turmoil in the banking and thrift industry. When it gets a contract to run a bank's computer operations, it buys the bank's computers, and it shifts some, but not all, of the bank's data-processing employees to its own payroll. Typically, it costs Systematics at least 20% less to manage an operation than it costs the bank to do the job itself. That leaves a nice margin for Alltel to make a buck and for the bank to save a buck.

In the last two years Systematics' backlog of signed contracts has tripled from $500 million to $1.5 billion. Systematics' edge here is its own homemade software, which lets banks do everything from open a checking account to create new products like certificates of deposit. IBM is a big competitor when it comes to running bank computers, but it uses software from Hogan Systems.

"We see communications and computers continuing to converge," says Joe Ford, explaining the reasoning behind the Systematics acquisition. "We are moving information, they [Systematics] are moving information, and I thought there would be some synergies there. It's worked out that way."

Systematics accounts for only 22% of Alltel revenues and 12% of earnings. "But a few years out, Systematics could be as big as or bigger than the phone company," says Joel Gross of Donaldson Lufkin & Jenrette. Gross thinks Alltel has stolen a march on the Bell family and that Alltel has a good chance of staying ahead.

What's the best way to play the troubled thrift industry? Try making a $100 deposit in a mutual savings association.

Bargains

By Matthew Schifrin

WHILE the public focused on the massive government bailout of savings and loans, a fortunate few were cleaning up in stocks of healthy savings and loans that recently converted from mutual to stock ownership.

When a thrift converts and its shares rise, its depositors win. That's because, when a thrift goes public, it generally offers the shares first to its own depositors and its management.

"Right now, the euphoria and interest in conversions is at a peak that I've never seen," says Matthew Lindenbaum, a New Jersey-based hedge fund manager specializing in banks and thrifts. Information compiled by James Marks of SNL Securities in Charlottesville, Va. backs up Lindenbaum's observation: There have been 45 conversions since July 1990; among the widely traded issues, the average is up 67%, compared with 10% for the thrift stocks overall and 9% for the S&P 500.

These results mask even more spectacular results among the top performers, many of which climbed as much as 50% during the first month of trading. Lynbrook, N.Y.'s Jamaica Savings Bank converted in June 1990; it is up 90%. Mississippi's Magna Bancorp came public at 24% of book value in March 1991; it's up nearly 150%. Chicago's Cragin Financial has climbed over 105% in less than three months *(see top table)*.

What's behind these sharp runups? Almost all of the recent conversions involve healthy, well-capitalized thrifts that decided to go public at relatively low prices. Their shares were almost guaranteed to rise. They were sold to the public at 30% to 40% of pro forma book value, whereas similar-quality thrifts trade for around 66% of book value. Moreover, many thrifts institute stock buyback and dividend plans soon after converting.

Why are the new offerings so underpriced? They have to be. A lot of folks remember what happened when many thrifts went public in 1986 and 1987. Back then regulators let shaky savings and loans dress up their financial statements and, thus made presentable, foist billions of dollars of overpriced shares on their depositors. Those who bought such shares—in Anchor Savings, Meritor Financial, Empire of America and Royal Palm Savings—subsequently saw their shares plunge, sometimes all the way to zero.

That debacle made investors wary.

But this time it is healthy thrifts that

Recent converts

Thrift	Assets ($mil)	IPO date	Offer price/ book value	Price change
Cragin Financial, Ill	$2,559	6/6/91	37%	105%
NS Bancorp, Ill	1,327	12/19/90	40	110
Magna Bancorp, Miss	982	3/8/91	24	141
FedFirst Bancshares, NC	391	3/27/91	40	63
First FSB, Smyrna, Fla	282	7/2/91	50	21

Source: SNL Securities, Va.

Lucky depositors who invested in these conversions were almost guaranteed to profit because of low offering prices. But the most recent convert, First FSB of Smyrna, Fla., was priced higher and is up the least. Prices may be heating up.

Ready for conversion

Thrift	Assets ($mil)	Tangible equity/ assets	Nonperforming loans/assets	Return on assets
Albany Savings, Albany, NY	$2,136	7.10%	0.65%	0.53
Bell Federal, Chicago	1,897	8.14	0.45	1.00
Century Federal, Pasadena, Calif	1,027	3.98	0.58	0.17
Liberty Federal, Chicago	434	8.03	0.16	0.62
Calumet Federal, Chicago	411	8.52	1.57	0.96
Security Federal, Chicago	212	9.44	5.39	0.91

Source: SNL Securities, Va.

These thrifts are all well capitalized, but Chicago's Security Federal has a relatively high percentage of nonperforming loans. Compare prices with those of publicly traded thrifts.

are going public. Since they are selling to their own depositors, and aren't desperate for capital, the recently public thrifts have no incentive to price their shares richly.

And there's another reason for the bargain prices: Generally, management is given restricted stock as well as options to acquire stock at the offering price; if the price then rises, management gets a fast payoff. When $2.5 billion (assets) Cragin Financial sold stock to depositors on June 6, 1991, its 62-year-old chief executive, Adam Jahns, gained a $3 million paper profit in the first month. Since then, he's up another $2.2 million, and other officers and directors of Cragin are $23 million richer.

Cragin is no rare case. The chief executive of Illinois' N.S. Bancorp, Henry Smogolski, is up $4 million in less than a year, and Jamaica Savings' chief, Park Adikes, has a gain of $4 million since June 1990.

More conversions are in the offing. That's good news to investment firms like Great Neck, N.Y.'s Adams Cohen and Raleigh, N.C.'s Trident Financial. These reap sizable fees helping thrifts organize conversions. At least a dozen more should convert by year-end, mostly in the Midwest and Southeast *(see bottom table)*.

Want a piece of the action? It's easy to get. Just be a depositor at a mutual savings bank or savings and loan before it decides to convert. Some smart investors mail $100 deposits to various mutual savings and loans that they think will eventually convert to stock ownership. Jerome Davis, a Connecticut-based investor, has been highly successful using this strategy and currently has 13D filings in three thrifts that converted.

But now many thrifts are rejecting mail-in deposits. Some are even giving strangers who walk in with a deposit a hard time. "Recently, I was in Chicago making deposits, and eight of ten thrifts didn't want my money," says New Jersey's Lindenbaum.

But stranger or hometowner, be careful. If the demand for S&L conversions remains high, you can expect new offerings at prices that will not be bargains: It's simple supply and demand. So don't pay over 60% of book value, either for original offerings or in the aftermarket. ■

Here's an $8 billion industry that was generally overlooked until Briton Neville Buch caught on to the potential. Now Buch and a competitor have a huge head start.

The exhibition industry: a well-kept secret

By John Marcom Jr.

OF EVERY DOLLAR paid by exhibitors and visitors at the Networld computer marketing show in Dallas this October, about 2 cents goes to the municipally owned convention center where it is staged. Where does the other 98 cents go? To a London-based trade show organizer, Blenheim Group Plc. After paying promotional and staffing expenses, but before its own home-office overhead, Blenheim makes a gross profit margin on this show of about 75%, or $6 million.

Not bad business. And don't worry about Dallas. It makes its cut from the hotel, restaurant and other spending that the event brings to town.

Welcome to the world of trade exhibitions. Organizers such as Blenheim justify such a markup because trade shows deliver face-to-face an audience that is, by definition, interested in the subject. It is precise and economical narrowcasting. A typical

Paul Lowe/Network Media

Philip Soar and Neville Buch at one of Blenheim's U.K. shows

Most exhibitions have proved comfortingly recession-resistant.

320-square-foot stand at a show like Networld runs about $10,000. That outlay gains exposure to as many as 30,000 high-potential customers.

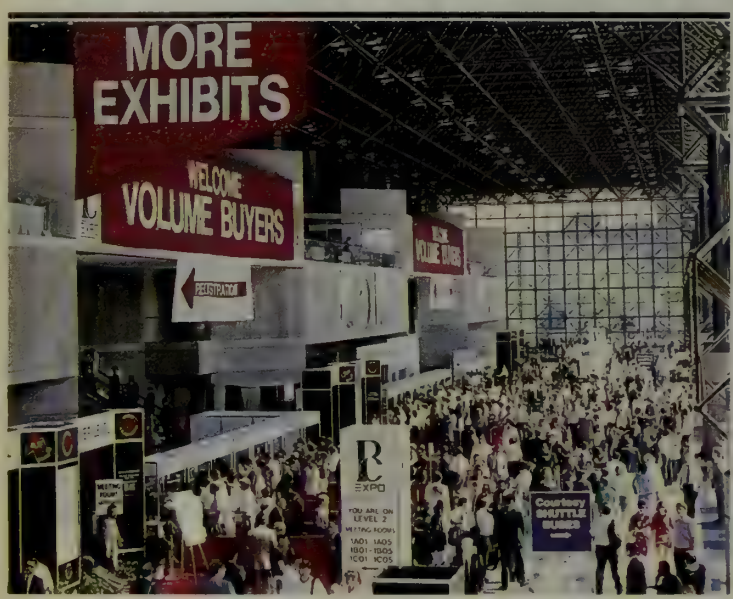
Having acquired some 250 trade shows in 11 countries since 1980, Blenheim now reckons itself to be the world's largest trade show organizer. It got that way by buying individual shows. Example: In July Blenheim paid Jewelers of America Inc., an industry group, $36.5 million for its semiannual New York fairs. The price is about seven times the anticipated profit from July's and this coming January's shows. "The concept of buying these shows didn't enter anyone else's mind," marvels Neville Buch, 45, Blenheim's chairman.

In October alone, Blenheim will mount ten other shows besides Networld, including a Unix-focused computer show in New York, a major hotel equipment show in Paris, a fitness equipment show in Basel and a gift fair in Wiesbaden.

Blenheim avoids consumer shows, preferring the stability of big industry fairs, which can be had for surprisingly little. Sometimes the deal is sweetened by cash as well as by Blenheim's shares, or by paying the key trade association a royalty (3% in the jewelry fair's case), promoting continued friendly links with the industry.

Space booked at trade shows has proved to be remarkably resistant to the recent recession. Stand space has, in any case, to be prebooked in some cases a year or more ahead. Regular exhibitors are reluctant to stay away even in lean times, because dropping out of a show loses an exhibitor prime floor positions gained by seniority. Attendance has also held up. Some 72,000 paid to attend Blenheim's latest three-day PC Expo at New York's Javits Convention Center in June, up from 50,000 last year, despite the supposed slowdown in PC purchases.

Profits, similarly, remain robust. For the year ended in August, Blenheim is expected to report a 29% increase in pretax income, to $46 million. Its revenue jumped an estimated 36%, to $210 million. After nearly doubling this year, Blenheim's recent share price (£3.53) stands at about 17 times its latest earnings.



June's PC Expo in New York **Computer makers and software companies like the face-to-face contacts.**

Blenheim is not the sole beneficiary of the trade show boom. The only major media multinational involved in trade show organization, British publisher Reed International Plc. (FORBES, *Oct. 29, 1990*), says its operating profit from its 263 exhibitions increased 22% in the year ended Mar. 31. "I've been in this business for 23 years, and I've always said we're the best-kept secret around," says Phil Ullo, head of Reed's Newton, Mass.-based exhibition unit. Reed's Nepcon, an electronics manufacturing show that began in Anaheim, Calif., is now mounted 18 times at regular intervals in 12 countries.

The "best-kept secret" hasn't been kept from everyone. William Ziff, the U.S. computer magazine publisher (FORBES, *June 10*), bought an 11% stake in Blenheim from a disaffected former associate of Buch. A unit of France's Cie. Générale des Eaux also holds a 12% stake in Blenheim. Buch himself holds another 6% of the equity, worth about $31 million.

Well-established shows are like money in the bank. For example, Blenheim's marketing expenses for Batimat, France's biggest trade show and the largest construction industry gathering in the world, are minimal. Exhibitors renew their contracts just after one show for the next, or their space goes to one of 700 waiting companies. The next Batimat, in November, will rank as Blenheim's biggest single show, with 3,700 exhibitors and 600,000 visitors.

Blenheim benefits not only from money spent on the shows but also from money spent by those attending. It will get $12 million in the U.S. this year from commissions from booking hotel rooms and air tickets for attendees and exhibitors. And there are advertisement sales from exhibition directories. A controlled-circulation trade magazine, *Bobbin*, has been spun out of an Atlanta textile machinery show acquired by Blenheim.

Blenheim Managing Director Philip Soar would like to pry loose more shows from trade groups; 24 of the 40 biggest shows in the U.S. are still in the hands of trade associations. Reed, too, is interested in expanding. Neither company, however, seems eager to buy one of the top three U.S. trade show organizers, Interface Group, which is rumored to be for sale for a stiff price of more than $350 million.

Will the juicy margins attract competition and drive down the fat profits Blenheim and Reed reap? It could happen, but for now these two have a tremendous head start on organizing an $8 billion (just in the U.S.) industry that is still highly fragmented.

Given the high and seemingly foolproof margins, it is a little surprising that there hasn't been more play. But maybe investors see a parallel between Blenheim's acquisition-led growth and the dazzling early days of Saatchi & Saatchi Co. and a host of other now scorned British service businesses. Buch vows to have learned from their mistakes. His biggest advantage is probably that so few others seem (yet) to have caught on to the money to be made from trade shows. But when they do?

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Freed from the grip of central planners, Soviet enterprises are dumping raw materials in the West. Result: plunging prices in titanium, aluminum and other metals.

Heavy metal

By Peter Fuhrman

AS THE planned economy of the Soviet Union fell apart earlier this year, both military and civil enterprises in that country began what looks like a going-out-of-business sale. Individual enterprises and factories have been selling to the West thousands of tons of stockpiled strategic commodity metals like titanium, uranium, aluminum, nickel and manganese.

Metal traders in London, where much of the international metals trade is brokered, tell of tons of rhodium being flown out to Switzerland, 5,000 tons of titanium ingot offered by a traveling Soviet salesman, shiploads of nickel being bartered for televisions and computers.

The most immediate impact of the selloff, not surprisingly, has been steep falls in the world prices of those commodities being sold by the Soviets *(see chart)*. No matter the price, the Soviets are racking up dollar profits on inventories paid for with rubles.

The Soviet enterprises are able to unload the stuff because a change last year in the law permits them to keep part of the hard currency from such sales to the West. Many of the sellers have little use for the raw materials they are selling. Some of it was hoarded by them in the past, because, under commmunism, managers never knew where their next shipment was coming from. Some comes from now shuttered or slowed down military production lines. The clear signal: Liquidate inventory now because tomorrow it might not be yours to sell. The new republican governments might claim it. Boris Yeltsin, who has claimed legal title over the Russian republic's mineral resources, has not yet moved to gain control of sales from the mines and stockpiles, but it is only a question of time.

The end of Soviet centralism is worse news for one of the capitalist world's most disreputable figures, fugitive from U.S. justice Marc Rich. Wanted on criminal tax-evasion charges, Rich has enjoyed a lock on Soviet nickel sales. It is doubtful the new Russian republic will permit him to keep it.

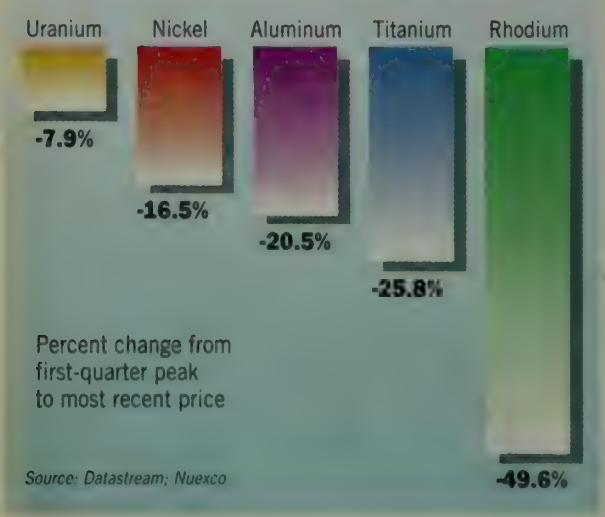
The main drawback for the Soviet sellers is product quality. As an example, huge lots of titanium—used mostly in aircraft and missiles—are being offered to the West. The downturn in most military spending in the Soviet Union has left defense factories awash in the metal, none of it, however, certified up to the standards required by major users like Boeing, General Electric and Rolls-Royce. The Soviets are having to sell their titanium as an alloying element in stainless steel manufacture, where the market is smaller and prices lower.

Similarly, virtually none of the Soviet aluminum that has come onto Western markets this year meets purity levels required for sale on the London Metal Exchange. Soviet aluminum (around 500,000 tons, equal to 6% of total Western consumption so far this year) is instead going cheap to manufacturers of construction materials or castings for automobiles. They beef up its quality by mixing it with higher-grade Western aluminum, a cheaper approach than buying all first-class metal. Who loses? Aluminum companies in Austria, Italy, Germany and Switzerland, where production costs are higher than the present selling price; cutbacks and closures are likely.

In uranium, U.S. suppliers are feeling the heat. In just two years Soviet sales of both primary uranium and its enriched isotope have risen from trifling amounts to close to 13 million pounds this year. That's equal to 10% of the total Western market. The uranium price is near its alltime low of $8.35 a pound (close to break-even for many American producers). The prospect is that prices will fall further as Soviet nuclear warhead production declines, freeing more Soviet uranium for Western markets.

At a rough guess, metal traders in London figure Soviet enterprises have earned $500 million so far this year selling their stocks of nickel, titanium, aluminum and uranium to the West. Now the Bear's threat to the West has switched: from menacing collective national security to threatening Western mining and smelting companies' profits. For these companies, the change is uncomfortable. For the world as a whole, though, it can only be welcomed.

No reasonable offer refused



Months before the failed August coup, Soviet enterprises began anticipating the breakdown of central planning and a shutdown in Soviet weapons manufacture by selling vast quantities of strategic metals to the West. The result: Metal prices have tanked, bringing relief to Western inflation rates, but pain for many Western mining and smelting companies, some of which may have to close.

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Two major companies rig Japan's movie business in ways that maximize their own comfort and minimize the revenues of U.S. movie producers.

A cozy Japanese near monopoly

By Gale Eisenstodt

THIS SPRING Time Warner Inc. joined with Nichii Co., an Osaka-based retailer with lots of real estate, to build some 30 multiplex theaters in the Japanese suburbs. With 6 to 12 screens each, the new movie houses will increase the number of screens in Japan by over 15%. Other U.S. entertainment companies are watching closely.

Japan is a dream market for movieland. What with high ticket prices ($12.50 for an adult) and an audience receptive to Western films, Japan has become the biggest foreign market for U.S. movies. In 1990 the U.S. majors took in $236 million from film rentals in Japan. Last year Universal's *Back to the Future Part II* was Japan's biggest box office earner.

But Time Warner and other Western film companies feel they could do much better. The number of screens in Japan has dwindled nearly every year since 1960, to under 2,000. This works out to about one movie screen for every 60,000 Japanese; the equivalent figure in the U.S. is one for every 10,000. Half of Japan's towns have no theaters at all.

It is not at all easy for foreign filmmakers to get their product into the relatively small number of theaters that do exist. Two Japanese cinema companies control the release of most foreign films in Japan. One is $1.2 billion (sales) Toho Co., known in the West for its Godzilla movies. The other is $400

Monopolist Shochiku's Central Theater in the heart of downtown Tokyo

Even wonderful foreign films like Jody Foster's "Silence of the Lambs" are restricted in Japan.

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How not to finance films

ON THE SURFACE, Japan's rigid and protective film distribution system seems to serve Japan's movie industry well enough. Through most of the 1980s Japanese movies were able to maintain a market share at home of about 50%. In Britain and Germany the figure is less than 20%. Even in culturally chauvinistic France the ratio of home-grown movies is only about 35%.

But by sheltering its movies from the rigors of the marketplace, Japan's majors are ensuring the industry's inevitable decline. Last year Japan's films took only 40% of the domestic box office, and the number of theaters devoted to Japanese movies has sharply declined. Since 1989 total box office receipts for Japanese movies have trended downward, while box office receipts for Western movies are on the rise.

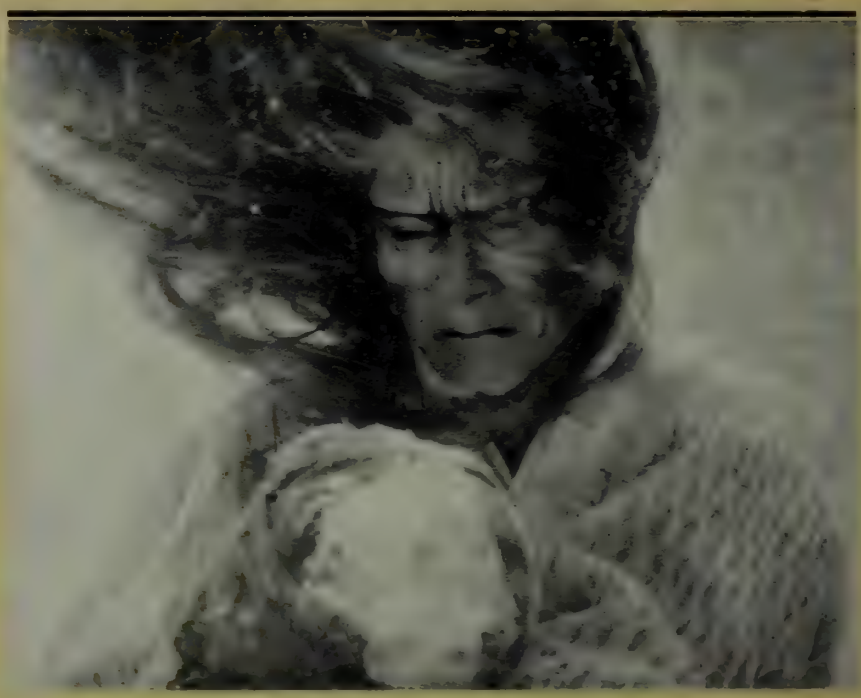
To reduce the risks of flops, Japan's major film companies—Toho Co., Shochiku Co., Toei Co.—use a film financing trick that is further reducing the quality of Japanese films. Producers maximize revenues for their films by getting big corporate backers to invest in a movie and then sell tickets in advance to their employees and clients. For example, a recent film released by Toei called *Heaven and Earth,* a samurai epic, was backed by some 40 companies, which were able to presell 4 million tickets—a huge number by Japanese standards.

The Japanese notion of *giri,* or obligation, encourages people to buy tickets, even if they have no interest in seeing the film. But the results are often perverse. "The theaters are empty," says Donald Richie, a film critic based in Tokyo, "but on the books the film is a financial success."

This system of financing films that no one wants to see is widespread. Says one frustrated producer: "You go to Shochiku or Toho with an idea for a film, and the first thing they ask is whether you have investors to buy tickets."

The three big distributors that control most of the theaters are only interested in the tried and true. The result is a steady diet of formula films—movies about cute animals, gangsters, and cartoons. This is a far cry from the days when Japan's Akira Kurosawa produced his internationally acclaimed *Rashomon, Seven Samurai* and *Ikiru,* and when Yasujiro Ozu brought us *Tokyo Story* and *Late Spring.*

Some Japanese producers, out of frustration, are opening their own theaters. If there is a turnaround in Japan's film industry, it is likely to come from these entrepreneurial independents. –G.E.



Memory Shop

A scene from Akira Kurosawa's "Dreams"

A rarity in today's Japanese diet of cartoons and movies about gangsters and cute animals.

million (sales) Shochiku Co., Japan's oldest film producer.

Both companies own theaters and distribute movies and, in addition, do some producing. A third film company, Toei Co., works with Shochiku to release foreign films.

Toho and Shochiku exert nearly total control over the release of all foreign movies in Japan, together with Toei, and over the majority of Japanese films as well. Thanks to Japan's weak antitrust laws, they are able to reserve theaters nationwide for Japanese movies and fix the length of the runs of their own movies, even if they're unpopular. If independently owned theaters in the major markets want access to the first-run foreign movies or films produced or distributed by Toho or Shochiku, they must agree to run everything the company picks; it's similar to the kind of block booking outlawed in the U.S. decades ago.

So U.S. distributors can't afford to offend these quasi-monopoly companies. Says Jean-Louis Rubin, until recently head of Twentieth Century Fox's international division and now with Largo Entertainment: "If you get into a fight with one company, then you are stuck with the other."

And if a foreign film company were to deal directly with an urban independent Japanese theater owner? Toho officials say they wouldn't retaliate against a company that did that. Believe that if you will. Says the head of one big foreign distributor: "We would like to deal with exhibitors directly, but we can't because Toho might stop dealing with us or we might be stuck in second-run

theaters."

Right now at least 600 cinemas—nearly a third of all screens—are reserved solely for Japanese films generally produced and/or distributed by Toho, Shochiku and Toei.

U.S. studios can show their productions through Toho-affiliated theaters or Shochiku-affiliated theaters, but never both. Thus, even a wildly popular foreign film like *Back to the Future Part II* will open at a maximum of 8 theaters in Tokyo (pop. 12 million) and 160 throughout Japan. "With a big movie, you would want 20 theaters in Tokyo," says Shigeru Musha, president of United International Pictures (Far East), the overseas distributor for Paramount, Universal and MGM.

Even Sony Corp., which bought Columbia Pictures, and Matsushita, which owns MCA, are at the mercy of Toho and Shochiku. Since 1984 Sony has opened some 42 tiny video theaters, each with about 100 seats. These video theaters show mostly Japanese movies, because they do not want to do business on the near monopolists' terms for Hollywood product. "If we joined Toho's circuit, we would have to show the movies that Toho picks," says Tomio Maehara, a senior managing director at Sony's video theater firm. Presumably, Sony could yank its Columbia films from Toho or Shochiku but it would lose more than it would gain.

Matsushita, in the meantime, is working closely with Shochiku to open video theaters.

In its brave new screen-building venture, Time Warner is picking spots where it won't compete head to head with theaters owned by Toho and Shochiku. You can't be too careful in crossing Toho and Shochiku.

Toho and Shochiku make no apologies for their tactics. They complain that the foreign distributors in Japan are too strong already. They also like to point out that their movie houses occupy valuable urban land that could often be put to more profitable uses than as movie houses. Shochiku, which still depends on movies for half its revenues, turned a profit last year only by selling off stockholdings. Shochiku and Toho are looking to property development for growth.

But one of their critics, United International Pictures' Musha, argues that with a more flexible booking system, Japan's box office revenues would increase by around 20%. Toho disagrees. "We would end up taking each other's customers," says Toshihiko Ishida, executive director in charge of exhibition at Toho. Translation: We like things the way they are.

Japan's film business now is a replay of what happened in the U.S. in the 1930s and 1940s, when the Hollywood studios controlled about 70% of the first-run theaters in the U.S. In the late 1940s the Justice Department forced U.S studios to divest their theaters and required distributors to sell their films on a theater-by-theater, movie-by-movie basis. Only in the 1980s, after the rise of television, cable, VCRs and other competing means of distributing films, did Justice allow studios to purchase theaters again.

But in Tokyo antitrust laws are weak and rarely enforced. Time Warner will need lots of luck in its new venture. ■

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Water is worth more in the desert than on a riverbank. That's why "distribution" is a valuable economic activity.

In defense of middlemen

BY THOMAS SOWELL

Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

NO SOONER HAD the euphoria about the emergence of greater freedom in the Soviet Union begun to subside than there was a new worry—about how the U.S.S.R. was going to get enough food to feed its people during the coming winter. It is a serious problem, though not insoluble. However, the real source of the problem has not always been fully understood and its implications reach well beyond the borders of the Soviet Union.

As bad as Soviet agriculture has been, there would still not be nearly as much of a shortage of food there if so much of the harvest did not spoil, get lost or get eaten by rats before it can reach the consumer. If anyone ever doubted the importance of distribution, the Soviet Union is a classic example of what happens when distribution is neglected.

Unfortunately, many people in many countries have seen those who carry out the distribution process as merely parasitic middlemen who stand between the producer and the consumer, levying tribute on the goods that pass through their hands. Marxists are not the only people who think this way. The medieval "just price" doctrine condemned those who bought a commodity and then resold it—"whole and unchanged"—for more than they paid for it.

Physically changing the commodity would justify charging a higher price, but merely relocating it in space and time wasn't regarded as changing its value. The ban against charging interest reflected the same vision: Charging more money than you lent was cheating.

This physical fallacy has long been politically powerful, though nonsense nevertheless. A gallon of water is obviously more valuable in a desert than it is along a riverbank. Cash today is obviously more valuable than a bond that will pay the same amount of money in 20 years. Buying on credit

1. Radio Shack TRS-80, 1977
2. GRiD Compass, 1981
3. Tandy 1000, 1984
4. Tandy 5000 MC, 1988
5. GRiDPAD, 1989
6. Victor M Series, 1990
7. Tandy 1000 RL, 1990
8. Tandy Line of Five Multimedia PCs, 1991

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can enable a young couple to raise a family in their own house, instead of waiting until they are elderly and have accumulated enough money to buy a home for cash—after their children are grown and gone.

Middlemen who distribute goods and provide credit have not only been unappreciated. Often they have been positively hated. Where the middleman function has been performed by an ethnically distinct group, such groups have been among the most hated minorities anywhere. Other minorities may be disdained and discriminated against, but few have experienced the centuries of animosity, persecution, mob violence, mass expulsions and wholesale slaughters which have been the fate of such middleman minorities as the overseas Chinese in Southeast Asia, the Jews in Eastern Europe or the Armenians in Turkey.

All the blacks lynched in the entire history of the U.S. do not add up to as many people as the number of Chinese slaughtered in one year in 18th-century Vietnam or in the 17th-century Philippines—and the mass killings of the Armenians and the Jews in the 20th century have been many times greater than the killings of the Chinese.

Often such groups have been accused of charging exploitative prices and usurious interest. Yet it has been common for their expulsion to be followed by rising prices, higher interest rates and shortages of goods.

Even when there are no ethnic differences between middlemen and their customers, their distributive function puts traders under a cloud. An economist who was a prisoner of war in Germany during World War II noted this social phenomenon among his fellow POWs.

All the prisoners received the same Red Cross packages, but different individuals had different preferences as between cigarettes and chocolate bars, or between canned goods and biscuits. Some enterprising POWs began circulating around the prison camp, trading various items back and forth, and usually ending up with more of everything at the end of the day, while their customers ended up with a mixture of goods they preferred to what they had been issued in the Red Cross packages.

Sometimes the middlemen offered credit. Near the end of the month, for example, some prisoner might be running out of chocolate bars. The trader would offer to lend him three chocolate bars, if he would agree to pay back four chocolate bars when the next month's Red Cross packages arrived.

Virtually all the POWs in the camp made use of the services offered by these entrepreneurs—who were nevertheless widely condemned for exploiting their fellow prisoners.

The idea of "exploitation" dies hard, because of the assumption that what is physically the same is the same in value, and because physical work in producing a commodity is more easily understood than the invisible enhancement of value through relocating goods in space and time—which is the function of the middleman.

The Soviets are not the only ones to suffer from the neglect of the middleman function. It has been a tragic but common sight in Third World countries during famines to see food rotting on the docks in port cities while people are dying of hunger in the interior. There should be some easier way to learn the importance of distribution. ■

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Here's a little church that doesn't consider moneymaking to be evil; it has gotten itself into the money management business and finds lots of ways to do good with the profits.

God bites mammon

By Richard Phalon

IN A UNIVERSE of stock pickers whose touchstones are often such ephemera as Eliot waves, volume reverses and trend line analysis, Gordon Rollert may be the only money manager around who can claim God (or at least one of His flock) as a limited partner.

This spring the small (110 voting members) Pakachoag United Church of Christ in Auburn, Mass. put up $200,000 to become a 20% limited partner in Rollert's Boston-based Standard Asset Group. Big Standard Asset isn't; it manages just $70 million for a score of clients, including the Auburn parish and its $5.5 million endowment fund. But it sure is unusual. Rollert chuckles: "We like to think we have things going for us other managers don't have."

Rollert, 56, has been running money ever since he cut his eyeteeth as a manager at the old Eaton & Howard (now Eaton & Vance) some 30 years ago. According to Callan Associates, which audits portfolio managers, his classic balanced portfolio approach (60% stock/40% bonds) has consistently produced solid average annual returns of 12.9% a year, with comparatively low risk, since Standard's inception in January 1987. That performance compares with the 14.7% return for the Standard & Poor's 500 over the same period, and it puts Rollert ahead of all six of the balanced mutual funds that this magazine recently rated as "Best Buys" (FORBES, *Sept. 2*).

If Rollert has unusual partners, there is nothing especially unusual about his investment approach. Rollert focuses on companies with high or rising returns on net worth. The typical stock in his portfolio earned over 18% on equity over the past two decades, versus 12% for the average corporation.

But apart from this wrinkle, Rollert follows a standard balanced fund approach. When the value of the stock side of the portfolio gets a couple of percentage points over the 60% mark, Rollert takes profits and reinvests them in a bond list that currently yields close to 9%. He tacks the other way when (and if) the value of the bonds goes over 40% of assets.

For the most part, the stock side has been feeding the bond side. Rollert has been long such familiar consumer and drug names as PepsiCo, Philip Morris, Bristol-Myers Squibb and Pfizer, all of which have outperformed the broad stock market in recent years.

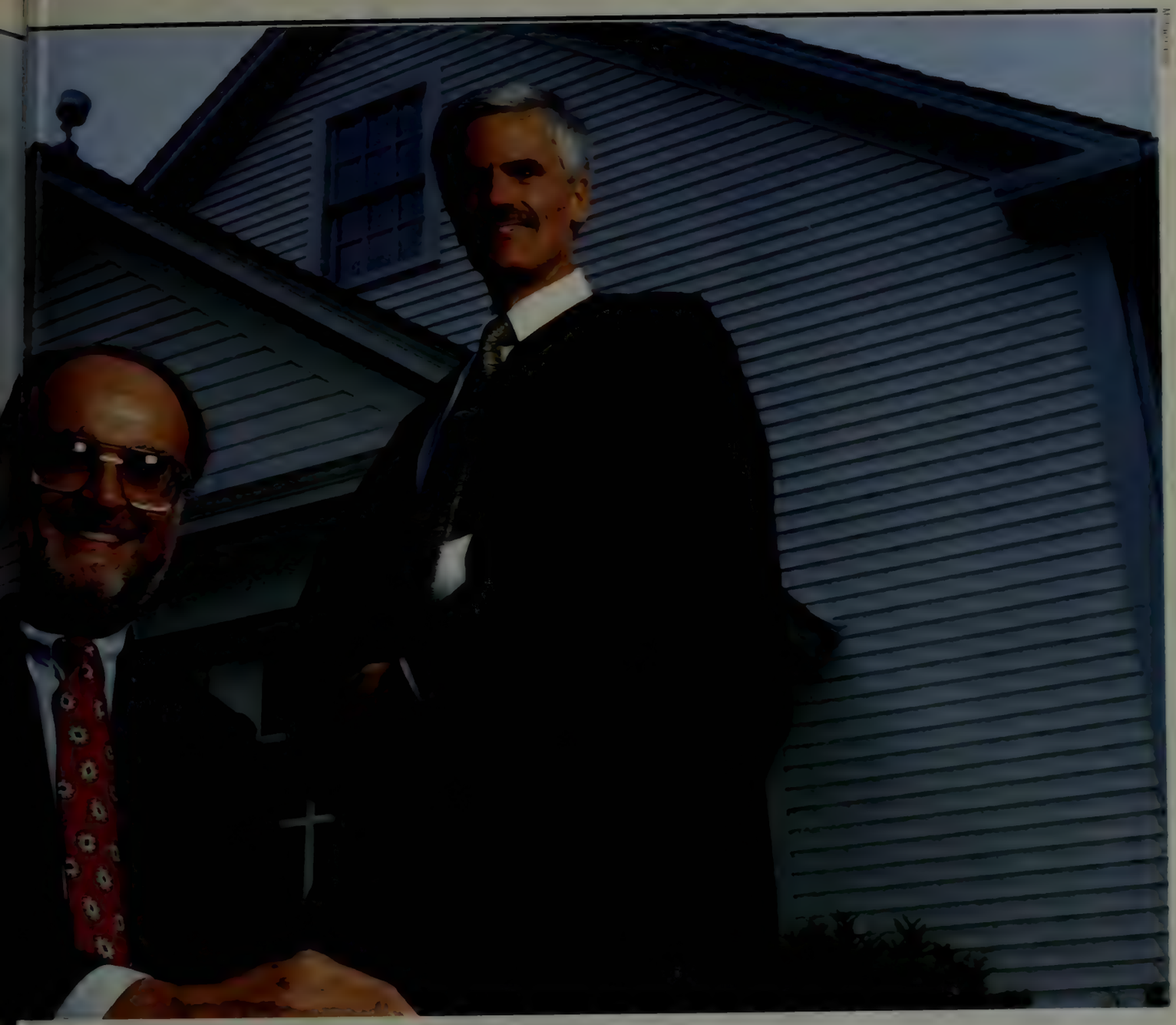
There are some surprises in the portfolio. Rollert is overweighted in oils (5% of the total portfolio), a cluster in which service companies like Schlumberger and Baker Hughes have generated good profits.

Rollert is also heavy in bank stocks, which make up 2.5% of the portfolio. He recently sold a large position in BayBanks at an average of $19 per share, netting him a return of about 50% since he bought the stock in February. Rollert thinks of BayBanks as "Massachusetts' most efficient deposit-gathering system" and would buy the stock again if the price fell. The bank will be a good play on improvement in the Massachusetts economy, which, Rollert says, has bottomed out.

Partners Gordon Rollert, Dennis Knight and the little church that manages money.

For conservative investors who like their odds short, a balanced blend of stocks and bonds may be just the ticket: few home runs, but consistently good averages.

Companies with above-average returns on equity don't come cheap; the average price/earnings ratio of the stocks in Rollert's portfolio is about 15% above the market. The bond portfolio, run by son Jeffery Rollert, 32, is quality stuff, too, with 85% in investment-grade corporate bonds and the remainder in Treasurys.



"It's dull as dishwater," says Rollert of his portfolio. "We don't try to hit home runs. We just try to be consistent." As any follower of FORBES' mutual funds ratings knows, consistency counts for more than hot hands do in long-term performance. Hence Rollert's excellent long-term showing.

But how did he get involved with a church? Dennis Knight is minister of Auburn's United Church of Christ. A decade ago Knight's congregation was polarized when it fell heir to a windfall bequest of $2.7 million. There were only 40 members in the church at the time. "We were overwhelmed," recalls Knight. "We couldn't imagine dealing with the interest on a sum like that, let alone the principal."

The traditionalists in Knight's flock wanted to give the money away. But Knight convinced them that with the help of professional money managers they could invest the bequest and, says Knight, "give it away not just once, but many, many times." After asking around for names of good portfolio managers, Knight compiled a short list and ultimately chose Rollert for his record of compounding capital.

Today the original $2.7 million windfall has grown to $5.5 million—plus $2.7 million worth of income (drawn at about 5% of assets a year), which has been spent on major church projects like the establishment of a community music school and a model support program for AIDS patients and their families in Auburn.

As Knight and his church's elders grew comfortable with Rollert's approach to looking after their money, Knight decided to take the church's involvement another step by investing directly in Rollert's Standard Asset partnership.

"It's part of our mission," explains Knight. "We had to learn not to be ambivalent or uneasy about managing money, as if it were un-Christian, and we want to help others learn, too." Dennis Knight hopes that the seal of approval his church has put on Gordon Rollert will encourage other congregations to seek the help of professional management for their endowments. ■

It's Wild West time in the emerging business world of the old Soviet Union. The place is full of gangsters and quick-buck artists as well as really smart budding entrepreneurs.

Watch your wallet!

By Natalia Darialova and Vladimir Kvint

UNTIL RECENTLY, practically anyone who was rich in the U.S.S.R. was rich illegally. We know a manager of Moscow's food storage, Yakov. He grew very rich under communism. He was in the *levak* business—stealing goods (in this case food) from the state, and selling them privately.

Poor Yakov. He can't show off his wealth. He does not even wear his favorite ring, which cost ten times what he earns legally in a year as a food distributor. As a man who benefited from the system, albeit illegally, Yakov has always been a loyal member of the Communist Party. "Modesty is the best decoration for a Communist," Yakov says, explaining why his prized ring remains in a drawer in his apartment.

Yakov is of the old school. A new breed of entrepreneurs has emerged in the past year or so who have shed the protective colors of communism and frugality. Many of these are hard-working, talented entrepreneurs and managers, good partners for Western companies. Others are outright crooks like Yakov, who simply knew how to play the old system.

Moral for foreigners wanting to do business here: Be careful whom you take as partners.

Among the legitimate entrepreneurs who have made a big splash is Artem Tarasov. Tarasov made a lot of money collecting some of the industrial waste—scrap metal and the like—that goes unused in the Soviet Union and selling it abroad. He used the proceeds to buy computers, which he imported into Russia and sold at huge profits in rubles.

One day in 1989, Tarasov came to pay his party membership fee, 3% of his income. His income, Tarasov disclosed, was 7 million rubles. He was quickly charged with doing business illegally; the Ministry of Finance froze his bank account.

But times had changed. Tarasov wasn't sent to Siberia. Tarasov sued the Ministry of Finance—and won. The State Arbiter ruled that the Finance Ministry should return millions of rubles to Tarasov.

Another talented entrepreneur is the famous Soviet eye surgeon Sviatoslav Fyodorov. Starting in 1989, he and his employees took advantage of early perestroika reforms and leased his medical hospital and research center from the state. His company has become a successful medical empire, with hospitals, ten joint ventures, and mobile hospitals touring Europe.

In December 1986 economic reformers pushed through laws allowing the establishment of cooperatives in which members could invest their savings. There have since been many cases of fraud reported at individual cooperatives, but many are honest enterprises. Some 4 million people work at such cooperatives in Russia.

These cooperatives and other new

Russian parliament member and businessman Artem Tarasov

Charged with running an illegal business, he sued the Ministry of Finance and won.

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Soviet eye surgeon Sviatoslav Fyodorov
A member of the Soviet parliament, he and his employees took advantage of perestroika early.

German Sterligov
Thanks in part to him, a market to trade construction materials.

businesses have developed some strong entrepreneurs. Armen Kazarian is one of the first brokers at the new Moscow commodity exchange. He has already concluded contracts with a total value of about 300 million rubles ($10 million at the ruble's current street value) in such commodities as construction materials and industrial waste. If the amount seems small, remember such a business was unthinkable barely 24 months ago. Another young Moscow-based entrepreneur, German Sterligov, has established a network of people with access to construction materials and is putting them together with people who want to build houses and commercial buildings.

Wealth is slowly losing its bad connotation in Russia. Even, unfortunately, ill-gotten wealth.

Consider Leonid Brezhnev's son-in-law, Yuri Churbanov. He was deputy to the minister of the interior and was very corrupt. After Brezhnev's death in 1982, Churbanov was sentenced to prison for participating in the black market. He is currently doing his time in the Urals as a prison sauna keeper. But the Brezhnev family has held on to its wealth and connections. Brezhnev's granddaughter's husband, Gennadi Varakuta, is active in joint ventures with Westerners. One of Varakuta's joint ventures has until quite recently specialized in bringing delegations of Western businessmen to the Soviet Union and introducing them to influential officials. But he was not a good partner: Varakuta was closely involved with Gennadi Yanaev, one of the chief plotters in the failed coup.

Geidar Aliev was head of the Azerbaijan republic and is said to be one of the old empire's leading mob bosses. Aliev, Brezhnev's best friend, now in his 60s, was Azerbaijan's KGB boss before becoming the head of the republic in the early 1970s. Under Aliev, corruption in Azerbaijan reached levels that were scandalous even by Soviet standards. At the next elections this thug may well be elected the republic's president. But such an election will probably have been rigged, and, despite his connections and lofty standing, Aliev is not a good person to do business with.

How can Western businessmen know whether a potential partner is a crook or just a good business person? Some guidelines: The state enterprises are usually safer partners than cooperatives or individuals, for two reasons. One, there are still many black marketers involved in cooperatives; two, state enterprises are legal entities, whereas a cooperative may appear to be a legal entity but really isn't. Moreover, state enterprises usually have much better facilities than cooperatives. If you are dealing with a cooperative, try to find out the nature of its income and learn more about the people behind it. U.S. auditing firms like Ernst & Young or Weiner Associates can help.

With the end of the Soviet Union, Russia and the other republics will probably go through a period of "wild" capitalism. A new breed of entrepreneur, energized by the freedom to buy and sell, will quickly arise. Some will be quick-buck artists and worse. Some will be smart business people, good for the long pull.

Choose your partners carefully.

Vladimir Kvint is Distinguished Lecturer at Fordham University and Babson College. Natalia Darialova is a writer whose book *No Man's Land* was a bestseller in the Soviet Union.

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In Tennessee, the twice-named Memphian of the Year just invoked Chapter 11 and left the locals with a half-empty monument.

The bluff city

By William P. Barrett

MEMPHIS, TENN. (pop. 610,000) has a lot going for it these days. Touching both Mississippi and Arkansas at Tennessee's southwestern corner, the city is the nation's 18th largest and the biggest between Washington and Dallas. The area, which has minimal manufacturing, has been only modestly affected by the recession. While construction starts are way down, the metropolitan area's unemployment rate, now 5.6%, has been constantly lower than the national average. Memphis' location on the edge of the Midwest, Southeast and Southwest makes it a prime site for distribution centers—filled with low-paying jobs, but jobs nevertheless.

This Mississippi River town, founded in 1819 by U.S. President-to-be Andrew Jackson and unscathed by the Civil War, has more than its share of gracious tree-lined neighborhoods and grand homes.

And then there is Graceland, Elvis Presley's legendary mansion on the town's southern outskirts. It was in an upstairs bathroom that the King croaked of a massive drug overdose in 1977 at age 42. No matter: Graceland, where he is buried and which is still owned by his estate, draws nearly 700,000 visitors annually—among U.S. homes, maybe second only to the White House. At Graceland, adults shell out $15.95 a pop, plus $2 parking, for a tour that also includes two Presley planes and his customized tour bus. A row of on-premises gift shops peddle such items as limited-edition Elvis figurines ($99.95) and plastic capsules containing Graceland soil ($19.95). Business is brisk.

Almost all of Graceland's visitors live outside the area and require local bed and board. So the Presley legacy probably tosses more than $40 million a year into Memphis' economy.

But Memphis has yearned for other tourist attractions, both to boost the economy and to gain recognition as a big-time city. Result: the Pyramid, a pointy, 32-story-high stainless steel landmark built by the city and county governments, scheduled to open in November. Besides a 20,000-seat sports arena, the Pyramid has a large observation deck at the top and more than 150,000 square feet at the bottom earmarked for glitzy, money-making ventures.

Just one problem here: The non-arena space is empty and probably will stay that way for a while. Sidney Shlenker, a flamboyant promoter, had promised $80 million worth of museums, an outdoor elevator and other niceties in exchange for contracts to manage the complex. Trouble was, he couldn't get the financing to complete the job. So the observation deck is unfinished and the grand outdoor elevator up the Pyramid's northwest corner unbuilt.

Quite an embarassment; Shlenker had been twice voted Memphian of

David Smart

The soon-to-open Pyramid in Memphis **Unless you're Spiderman, don't try to get to the observation deck at the top.**

the Year by the readers of *Memphis* magazine. After his contracts were revoked in June, he put his six Pyramid-connected companies into Chapter 11. Although Shlenker had raised millions through loans and sale of $50,000-a-year luxury boxes, court filings revealed the Pyramid Cos., as they were known collectively, had $20 million of liabilities and virtually no cash or other real assets. Shlenker's lawyer says the money went for design and operations.

What happened? Inspired by the famous structures near Memphis' namesake city in Egypt, the locals had been hankering to build a hometown polyhedron ever since erecting one 95 years ago in Nashville for the state's centennial. It would become an architectural statement—an instantly recognizable symbol like, say, St. Louis' arch just up the river.

This time around, city and county governments floated bonds to fund the $62 million cost of the basic structure—originally called the Great American Pyramid—and the interior arena area, which covers about half the ground floor space. Shlenker, former owner of the Denver Nuggets basketball team, promised the works in exchange for a management contract. He said Dick Clark would build a music hall of fame and that the College Football Hall of Fame would relocate from Ohio. He even envisioned a trendy Hard Rock Cafe.

Shlenker talked a great game—so great that much of the population thought he, rather than local government, was building the Pyramid. Shlenker evidently convinced officials that, contrary to experience elsewhere, an unusually high amount of debt service and operating costs could be immediately defrayed by revenues from his projects.

Who could resist? In dealing with Shlenker, though, the administrations headed by Memphis Mayor Richard Hackett and Shelby County Mayor Bill Morris showed themselves a bit naive. They helped Shlenker pledge maybe $4 million in revenue streams from their Pyramid as collateral for a $3 million bank loan to one of Shlenker's companies. The $3 million now is all gone; government can't grab that collateral.

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Tourists at Elvis Presley's Graceland
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officials accepted $1.8 million of stock in a company listed on the notorious Vancouver Stock Exchange. Now it's worth a lot less—if buyers can be found. Also, the due diligence on Shlenker seems to have been a bit lacking. Some aides now acknowledge they didn't know when they contracted with Shlenker that he was no stranger to putting a company into bankruptcy.

Shlenker, of course, ran straight into the nation's credit squeeze. The fact that he didn't own the Pyramid project couldn't have helped collateral-hungry bankers, either. Anyway, local taxpayers will pay a high price for Shlenker's ambitions and their elected officials' laxity. They will have to subsidize the Pyramid to the tune of nearly $4 million a year. Indefinitely.

But things aren't all glum. Memphis is getting a big arena in a big monument that's probably the biggest pyramid to come along in 4,000 years. Even the empty space looks a bit like an Egyptian ruin. Big publicity is sure to follow. Clearly, the performance of all the parties involved is breathing new meaning into Memphis' famous river-generated nickname: the Bluff City.

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Healthcare Services Group has been a hot little growth company, but real danger looms ahead.

Cash squeeze

By Fleming Meeks

"THIS BUSINESS is pretty simple," says Daniel McCartney, a 39-year-old Brooklyn, N.Y.-born Irishman with an infectious grin and refreshing modesty. McCartney is the founder and chairman of Healthcare Services Group, which mops floors and washes sheets at some 520 nursing homes around the country and has become a very hot little growth company.

Over the past five years Healthcare's revenues have grown at a compound annual rate of 26%, to $66 million last year. Earnings have compounded at 27%, to $5.4 million. Such smart performance earned Huntingdon Valley, Pa.-based Healthcare the 197th spot on FORBES' list of the 200 Best Small Companies in America last year *(Nov. 12, 1990)*. Healthcare shares, first sold to the public in 1983 by penny stock broker D.H. Blair & Co., have risen nearly tenfold, to a recent 23¾, or 22 times last year's earnings; the equity is now valued at $123 million. McCartney, who still owns $13 million worth of Healthcare stock, says he started the company with just $10,000.

But do some research on this company, and things begin to smell a little sour. The story of Healthcare Services begins in 1973, when McCartney, a 21-year-old graduate of Villanova University, went to work as a manager for a small Philadelphia janitorial business, Universal Building Services.

At Universal, McCartney became fast friends with a former vice president at Bache & Co. named Melvyn Mason. Mason, then in his 40s, arrived at Universal as a marketing man in 1974. His past soon followed. In 1975 Mason pleaded guilty to 13 counts of fraud and was barred from involvement in the securities industry. Sentenced to nine months in prison, he was allowed to keep his job at Universal but spent nights in jail.

As they toiled at Universal, the two friends designed their own janitorial services company. Immediately after Mason was released from prison, in November 1976, he and McCartney incorporated Healthcare Services. McCartney took the title of chairman; Mason has stayed in the background as vice president of marketing.

But a happy ending to the story may never be written. Healthcare is suffering big receivables problems.

Over the past 12 months (through June 30), the company has booked revenues of $76 million and profits of over $6 million. But in any rapidly growing company, cash flow is more important than reported earnings and Healthcare is beginning to run low on cash.

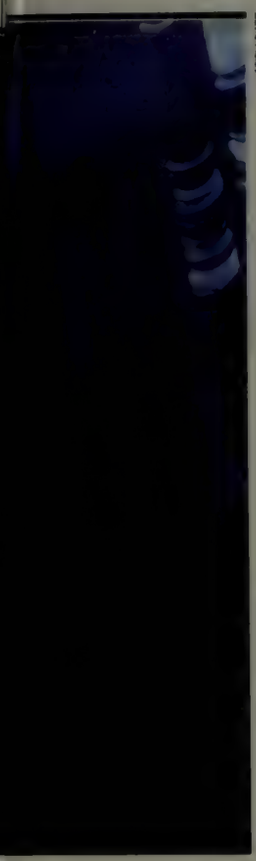
The company's receivables have risen by $7 million, to a record $26 million. To that, add $5.4 million for long-term receivables. Plus, another $5.3 million in receivables have been moved off the balance sheet altogether—sold to Healthcare's bank, but with recourse to Healthcare. Healthcare is, in effect, guaranteeing loans for customers late in paying their bills.

That adds up to an $18 million increase in receivables, to $37 million. Even if you consider the off-balance-sheet receivables as paid in full, the time it takes Healthcare to get paid for its services now runs to 149 days, up from 110 days a year ago.

"That's not so terrible," shrugs McCartney, asked about Healthcare's dwindling cash. Why not? "Because the company's growing. And the receivables are collectible." McCartney is so convinced of this that he has reserved only $626,000, about 2%, for doubtful accounts. In 1982, when the firm was private and receivables were only 34 days, Healthcare's bad

accounts reserve was 11%. If uncollectible accounts exceed $626,000 by very much, Healthcare's earnings will get clobbered.

Healthcare also ran into some sticky problems with its acquisition of American Services Co. Three years ago Healthcare paid $16 million in stock and notes to Southmark Corp. for American Services and its contract rights to provide housekeeping and laundry services to some 190 nursing homes; Southmark had syndicated the homes into limited partnerships but remained the general partner.



David Fields

Healthcare Services Group Chairman Daniel McCartney **While earnings continue to climb, cash is dwindling.**

Healthcare estimated that annual revenues from the contracts would be about $26 million. But no sooner did Healthcare close on the deals than the nursing homes began screaming that they were being overcharged. By some estimates, the prices Healthcare charged for its services were in certain cases 50% above the nursing homes' previous costs. William Filippone, former president of National Heritage Management, the Southmark affiliate that managed the nursing homes, says in 1989 he refused to sign cost reports, submitted to Medicaid for reimbursement, for 60 or 70 homes. "I refused to accommodate price gouging," says Filippone.

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Around the time Southmark filed for bankruptcy in July 1989, the nursing home partnerships began looking for ways to break the 20-year contracts with Healthcare. Curiously, however, when Morgan Stanley sold 875,000 shares of Healthcare stock to the public for $21 million on July 25, 1990, there was no mention in the prospectus that any large-scale cancelation was likely. Yet by the end of September, 105 of the Southmark homes had canceled their contracts.

Did Healthcare know the cancelations were coming but fail to disclose it in its prospectus? In a March 1990 bankruptcy filing—over three months before the stock offering—Mark Amstrong, then Southmark vice president, said the partnerships would "inevitably" cancel Healthcare's contracts. Armstrong says talks about unwinding the acquisition began as early as mid-1989.

McCartney argues that Healthcare had reduced its service fees in early July. At that time, he says, the partnerships had a chance to cancel on reasonable terms, but didn't.

Maybe so, but rumors are now rife that the Securities & Exchange Commission has been taking depositions from people involved with the former Southmark nursing homes. Several people who spoke with FORBES about the Southmark/Healthcare deal said they had been deposed or contacted by the SEC to provide documents.

So it comes as no surprise that short-sellers are swarming all over the stock. Nearly 2 million of the 5.2 million shares outstanding have been sold short. Yet the stock hasn't gone down much; at a recent 23¾, it is down less than a third from its alltime high, not bad for the volatile stock of a junior growth company.

Are the shorts right? Or will they be bloodied in a short squeeze? One very bullish analyst who follows Healthcare, Smith Barney's Keith Mullin, thinks the shorts are on the wrong track. "I would expect the receivables to come back in line by the end of the year," says Mullin.

Perhaps. But for that to happen, McCartney and Mason will need to start working the phones, reminding their slow-paying customers that Healthcare must pay its bills with cash, not reported earnings. ■

It took a transplanted Californian to teach Hawaii's businessmen to dress like they're in Hawaii.

Aloha from Hawaii

By Ellen Paris

MIDDAY ON Bishop Street in downtown Honolulu. Businessmen, bankers and lawyers rush between lunch meetings and appointments. But to an out-of-towner something seems strangely amiss. There's hardly a suit and tie in sight.

Chalk up the casual look among local influentials to Hawaii's temperate climate and a transplanted Californian named Reyn McCullough. The preferred attire: dress slacks and a muted print "Hawaiian" shirt. More precisely, a short-sleeved pullover with button-down collar made by a family-run outfit named Reyn Spooner-Inc.

Such has not always been the case. Twenty-some years ago, when Jack Lord and *Hawaii Five-O* were in their heyday, many respectable Hawaiian businessmen still dressed in the staid old business attire of the mainland. And loud Hawaiian shirts, known lo-

G. Brad Lewis

Reyn Spooner's Tim McCullough and wife, Kooksie **"Our business isn't about cheap. It's about quality."**

cally as aloha shirts, were strictly for tourists.

But around that time the Hawaii state legislature created something called Aloha Friday, encouraging men to wear aloha shirts to work on Fridays. (Today's aloha shirt dates back to the 1920s, when the loose, brightly colored print shirts were regularly made out of leftover material from women's muumuus.) Trouble was, most of the aloha shirts on the market were more suited to the beach than the office.

That's where Reyn McCullough comes in. In the 1940s and 1950s McCullough, who died seven years ago, owned a traditional men's store on Catalina Island off the coast of Los Angeles. "My father got tired of watching the Pacific-bound planes fly overhead," recalls Reyn's son Timothy, 42, who now runs the business. "So he decided to get on one and come out to see what was going on in Hawaii."

He liked what he saw. Statehood was imminent. And so was the introduction of jet travel. Hawaii—soon to be just a short flight from the West Coast—seemed to be filled with opportunities. So in 1959 McCullough packed up his wife and two kids and moved, opening up a men's shop at the new Ala Moana shopping center near Waikiki.

McCullough soon spotted another opportunity. No one, it seemed, was making an aloha shirt dignified enough for his local customers to wear on a casual evening out. So McCullough got it into his head to design a sort of preppy all-cotton aloha shirt with button-down collar. To make the shirts, he teamed up with Ruth Spooner, a custom swimwear maker in Waikiki.

The shirts, which he began selling in his store in 1961, quickly caught on with local customers. Not the least of their appeal was their toned-down colors. McCullough had observed that the most authentic-looking aloha shirts were the ones the surfers wore, which had become bleached out by the sun. To achieve that effect he simply turned the brightly colored floral and calico prints inside out.

Gradually, as the aloha shirt phenomenon caught on among businessmen, sales of Reyn (pronounced *ren*)

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Reyn Spooner's Honolulu factory **Authentic aloha shirts made in Hawaii.**

Spooner shirts began to grow. By the mid-Seventies—McCullough had bought Ruth Spooner's company in 1963—he was operating seven Reyn's stores and wholesaling shirts to about 250 small accounts in Hawaii and on the U.S. mainland. Revenues for the company, which is headquartered in Waimea on the "Big Island" of Hawaii, hit $2.5 million.

But by 1984, when Tim McCullough took over after the sudden death of his father, Reyn Spooner shirts were starting to look a bit old-fashioned. The younger McCullough moved carefully, but decisively, to expand the business. (One sister works as a buyer for the stores; two others are not involved in the business, and Tim's wife, Kooksie, oversees the women's merchandise.)

"It's a delicate dance," says Tim, "to retain the virtues of a company that was created by someone else and to move forward at the same time." He had worked around his father since he was a kid, beginning with odd jobs in the Catalina store. After high school, he spent eight years operating a truck farm before coming back to the family business. He recognized the company's greatest strength was the "traditional" look of its shirts—a tradition Reyn McCullough had created. But he also knew that the company was ignoring the more trend-conscious part of its customer base.

To attract new customers, Tim started looking at new fabrics and styles. (Reyn Spooner shirts come in five basic styles and cost between $52 and $70 each.) For starters, he expanded the number of patterns introduced every year—ranging from florals featuring large plumeria blossoms to pastel prints of postcard scenes of Waikiki, circa 1940—from 12 to 75.

He also took the button-down coat-front model, among others, and updated it in "Reyn-lon," a 100% rayon fabric. The material is looser, drapes well, and looks better with linen slacks and pleated pants. Explains McCullough: "This gives us entrée to another kind of retailer that didn't buy Reyn Spooner before. We figure we can take an old Reyn Spooner customer and trade him up to this new look."

Since taking over, Tim McCullough has more than doubled revenues, to nearly $16 million. To do so, he has taken on some long-term debt—he won't say how much. However, he says pretax profit margins have remained steady at about 10%. Most of the company's growth has come from expansion of the retail stores and a tenfold increase in wholesale accounts—mainly specialty shops in Hawaii, Japan and the U.S. mainland. In addition to the wholesale business, which accounts for 50% of sales, McCullough runs ten Reyn's retail stores in Hawaii.

While Reyn Spooner's fabrics are made in the Far East, McCullough continues to make his shirts in Hawaii, at a 29,000-square-foot factory near downtown Honolulu, which employs almost 100 seamstresses. Why not lower costs by moving production offshore? For one thing, he believes an authentic aloha shirt ought to be made in Hawaii. Moreover, he adds, "My goals are the same as my father's. Our business isn't about cheap. It's about quality."

Aloha Airlines Chief Executive Maurice Myers, who has a closetful of Reyn shirts, agrees: "The only problem with Reyn Spooner is that the shirts never wear out."

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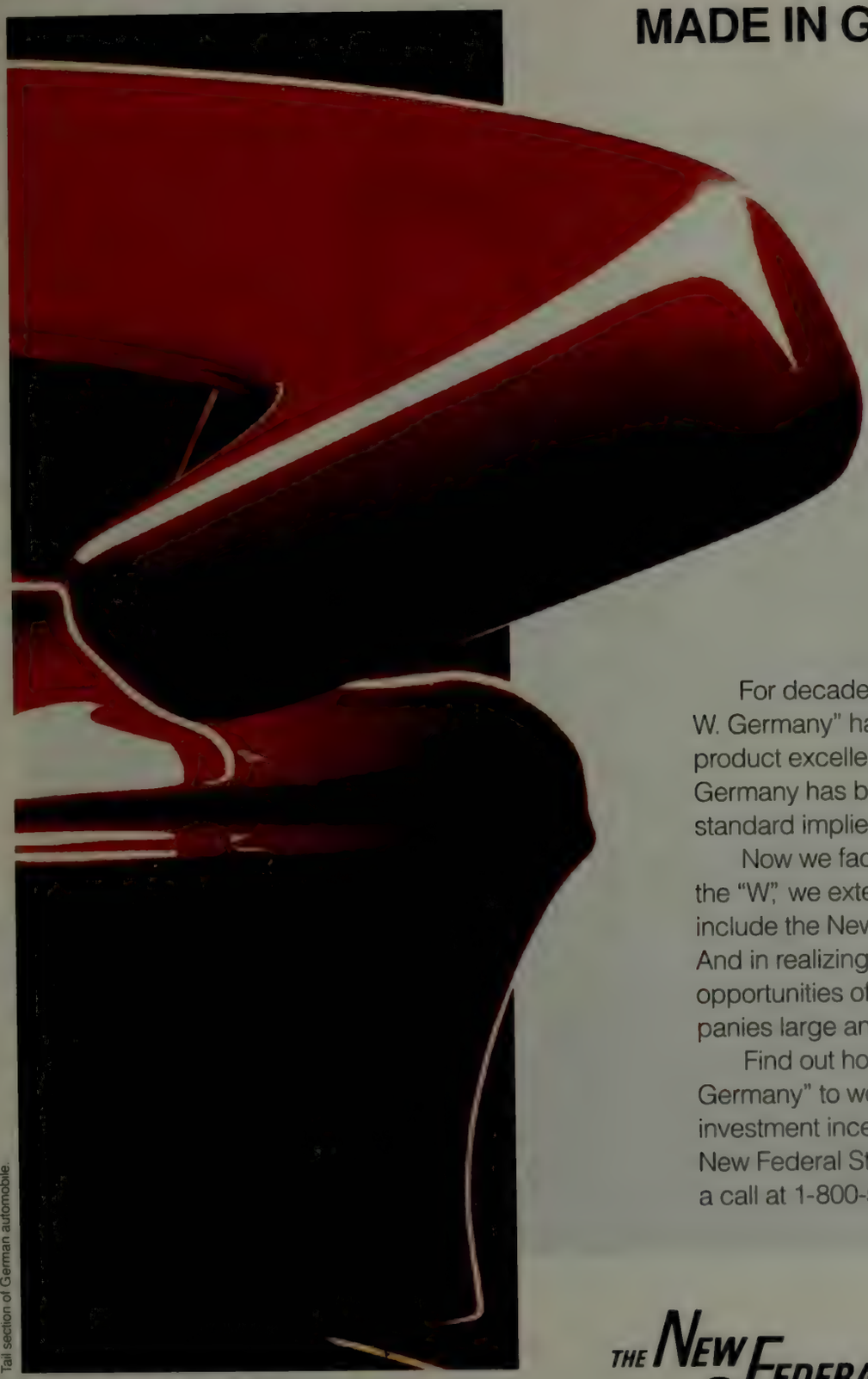

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Ansel Adams, "Golden Gate Bridge, San Francisco, California"

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International Paper gets modest cash revenues but a big public relations payoff by letting folks use many of its 6.3 million acres for recreation.

A walk in the woods

By Linda Killian

ABOUT 150 MILES southeast of Dallas, nestled in the Texas woods near Nacogdoches, is Cherokee Ridge, a 3,500-acre fenced game preserve. Amid stands of loblolly pine and bottom-land hardwood, hunters get a crack at deer, ducks, quail and squirrels in the hunting season.

Cherokee boasts a fully equipped lodge, but it is also a working timberland where for most of the year trees are harvested. The property belongs to IP Timberlands, a publicly traded limited partnership 84% owned by International Paper.

Eddie Miller and a dozen or so other hunters pay $2,300 a year for the combination to the property's padlocked gate, and this restricted access—IP employees working on the property also get the combination—makes hunting relatively safe and uncrowded. Miller, who owns a medical insurance claims business, uses Cherokee Ridge in the summer, too, when he takes his family there for cookouts and fishing.

Cherokee Ridge is only one of 3,800 IP properties where recreational and timber harvesting activities coexist. IP currently has over 60,000 hunting and recreational customers, many of them members of clubs. For 90 cents to $5 an acre, these customers get exclusive hunting and recreation rights on the property.

Most of IP's recreational facilities are cheaper and more primitive than those at Cherokee Ridge—just a few hundred acres of forestland, some with electricity and toilets. In northern Maine, where IP owns whole townships, the public pays daily fees of $3 to $6 and seasonal fees of $15 to $90 for camping, hiking, fishing and canoeing. In New York's Adirondack region, people snowmobile and backpack on IP land for a fee; they can even lease land for a cabin for $700 to $1,000 a year.

Growing trees takes a long time—15 to 20 years for paper and 30 to 40 years for lumber. While the trees are growing on IP's 6-million-plus acres, the land yields IP little; by selling recreational use of the land, IP gets extra revenue during these long growing periods. Almost two-thirds of IP's land is now in the the so-called wildlife and recreation program. Last year the program generated some $10 million in revenues for IP Timberlands. That's a minuscule portion of International Paper's $13 billion in revenues, but nobody is sneering. "It's growing, and we expect revenues to double in five years," says William Wall, wildlife ecology manager for the midsouth region.

As revenue from the leasing program increased, regional forest managers began to manage their properties somewhat differently. They began leaving corridors of trees between cut areas for wildlife to travel through and planting "food plots" for animals in open areas rather than reseeding all of them with trees. They have also reduced the size of clear-cuts and now leave stands of trees uncut while younger stands next to them grow. They are finding ways of protecting endangered species, such as the black bear in the South. The effort focuses on enhancing the bear's habitat.

Company wildlife biologists review timber decisions. They don't have veto power, but they do get listened to. "There were times," says John Georges, chairman and chief executive officer of International Paper, "when some executives were asking, 'Is it worth it—should we be doing this?' " Local managers were taking flak, for example, from neighbors who had become accustomed to using the properties for free. But oppo-

John Squires, president of International Paper Forest Resources

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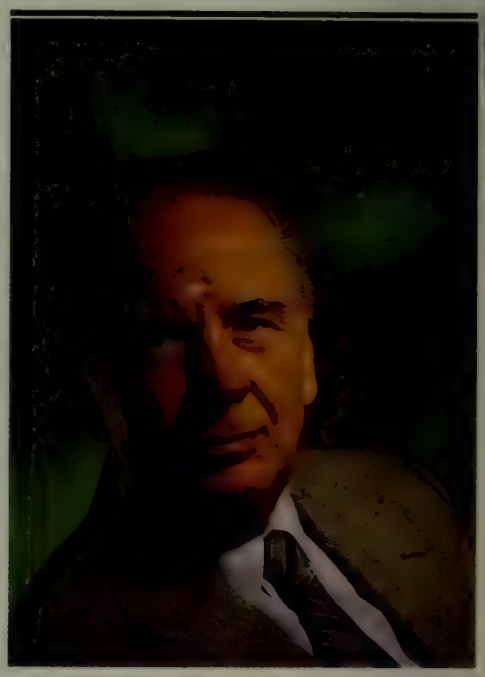
*Manufacturer's suggested retail price

sition melted when the program began paying off in more plentiful game and more attractive forests. "Lands that were an eyesore with no game are now a showcase with abundant herds," says Wall.

Other timber companies have taken a leaf from IP's book. Westvaco, Champion International and Weyerhaeuser now have programs well under way. "Our competitors watched us get beat up, then when things calmed down, they came in," says John Squires, president of International Paper Forest Resources.



International Paper's John Georges
Good for wildlife and the bottom line.

One thing that brought the competitors in was the public relations dividend IP began to reap. People who use the land for recreation feel good about IP. So do all but the most extreme environmentalists. "The IP story, when told, will give [other] companies the idea they can do more," says Terry Anderson, a Montana State University economics professor. Anderson is a well-known advocate of free-market environmentalism—the concept that the free market can be used to protect the environment a lot more efficiently than government management can.

The program will probably never do wonders for International Paper's profit statement, but, says Georges, "It pays its way and benefits the environment." IP plans doing more.

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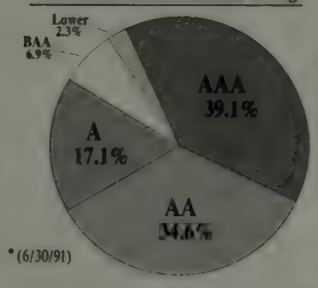

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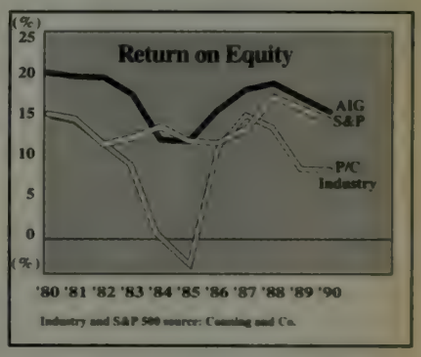

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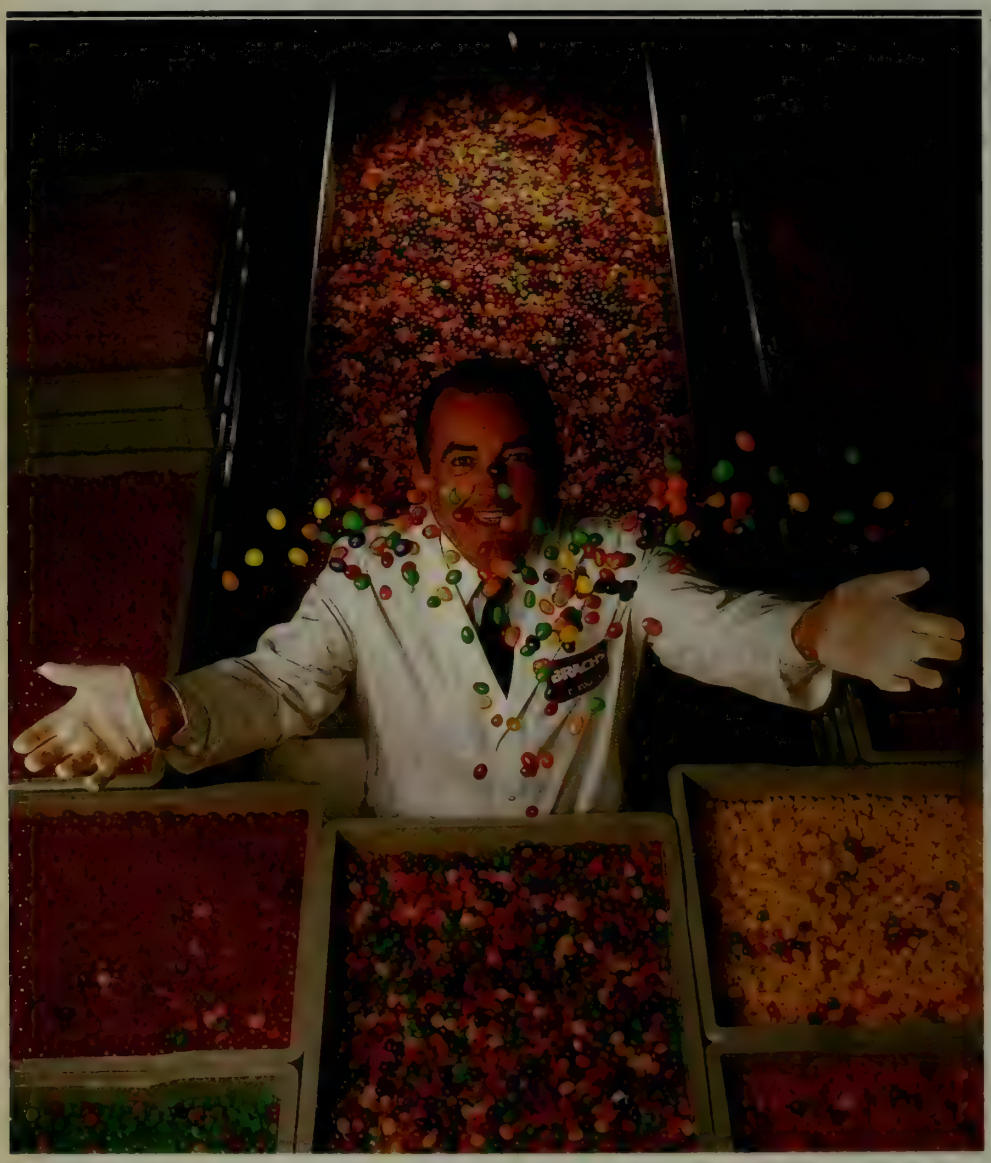
Swiss billionaire Klaus Jacobs bulled his way into the U.S. candy market. All he wants now is to be made whole.

Arrogance goeth before a fall

By Amy Feldman



Ralf Finn Hestoft/SABA

Brach's Peter Rogers
Playing Mr. Fix-It to the country's largest maker of bagged candies.

WHEN PHILIP MORRIS paid $3.8 billion last year for Jacobs Suchard A.G., it wouldn't touch its American subsidiary, E.J. Brach Corp. Suchard, the Swiss chocolate and coffee conglomerate, was in fair shape, but Brach—which makes penny candies like starlight mints and chocolate-covered raisins—was in serious trouble. Philip Morris didn't want the headache.

The Swiss management had managed to create a real mess. Brach was founded in 1904, and purchased by American Home Products, which owned it from 1966 to 1987. During those 83 years Brach garnered about two-thirds of the market in the U.S. for candy sold in bags, now some 7% of the $9 billion U.S. candy market.

Suchard bought it in 1987 for close to $750 million in an apparent effort to get more distribution in the U.S. for its fancier brands. Jacobs had built his family coffee business into a candy giant with his 1982 purchases of the Swiss brands Suchard and Tobler.

Jacobs, an impetuous German-born billionaire, just didn't understand the U.S. market. Nor did he listen to those who did. "It was autocratic," says Lawrence Dicke, senior vice president of finance, who has been with Brach for two decades.

Americans, for example, eat less candy than do Europeans and buy it mostly on impulse. American distribution is far more complex because of the plethora of store types and their sheer number. And in the U.S., candy sales tend to be concentrated around four holidays—Halloween, Christmas, Valentine's Day and Easter. In Europe people indulge their sweet tooth all year round.

Plowing ahead, Jacobs changed Brach's name to Jacobs Suchard Inc. (which few retailers' purchasing directors could pronounce correctly), and purged the company's top management in favor of longtime Jacobs Suchard executives from Europe.

Next, Jacobs' European managers started tinkering with Brach's product line. They reduced the number of items from 1,700 to 400. Starlight mints, for example, now came in 6 sizes instead of 20. What this meant was that a drugstore could no longer sell a 9½-ounce bag for a higher margin than the 7-ounce bag available at a discount outlet.

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It's a well-known fact: some Asian countries are among the world's leading economies.

The success of the Confucian philosophy in the computer age.

Looking closer at the causes, one of the first things that springs to mind are the teachings of Confucius, dating from over 2,500 years ago – a school of thought which laid the groundwork for an unusually favorable economic environment.

The foundation for success has been built on an uncompromising recognition of competence, the importance of getting a good education, and especially the individual's profound feeling of being at one with both society and his employer.

It goes without saying that such strengths, which have evolved over generations, also involve duties. For in order to sustain the climate of harmony, each individual is expected to comply with various, and at times subtle, rules of behavior.

To take an example: those much-beloved and protracted business dinners are not designed primarily as a medium for business negotiations.

But by fostering a state of harmony and creating the correct atmosphere, they do help one successfully conduct business.

If in the course of negotiations you are confronted with a situation where you could in some way cause your counterpart to "lose

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By behaving in this way, you will have by no means lost influence. On the contrary, you will have shown that you have taken to heart the most important rule of conduct: in a dignified manner, always permit your counterpart to save face. And by doing so, you will also further your own interests.

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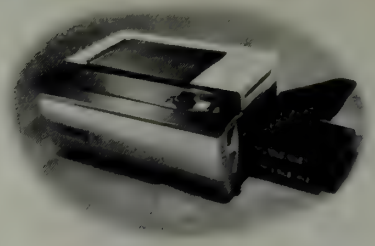

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Failing to grasp the importance of the holiday seasons, Jacobs' new U.S. managers neglected the usual promotions such as Easter and Christmas.

It wasn't long before retailers deserted to Brach's competitors. Many switched to Chicago-based Farley Candy Co., the country's second-largest general-line candy company (1990 sales, $150 million), or to smaller, regional competitors.

By the end of 1989 Brach had operating losses of some $50 million and sales had fallen off by 20%, to a dismal $470 million. That year Jacobs Suchard's profits declined by 10%, to $216 million, on sales of $5.2 billion; the decline was primarily the result of weakness in the U.S. operation.

This was the disaster that Philip Morris wanted no part of. Jacobs, clearly, wanted out, too. In August 1990 Jacobs brought in Peter Rogers, 53, previously Ross Johnson's right-hand man at RJR Nabisco. A blunt-talking Englishman with a doctorate in biochemistry and plant physiology, Rogers knows the candy business inside out. He had been president of Chicago-based Curtiss Candy Co. in the 1970s, and at Nabisco had pushed everything from Baby Ruths and Chewy Chips Ahoy! to Butterfingers. "In 12 years I had 18 titles, and basically what I did was fix broken businesses," Rogers says.

Ralf Finn Hesse/SABA

Making jelly beans
Ten days to produce, 59 cents per pound.

He quickly decided the way to fix this business was to restore the formula that had made it successful before Jacobs stepped in. He understands a company like that can't just carry the most profitable items. It must sell everything a retailer needs. The product line that Jacobs had trimmed, Rogers is fleshing out again. It now has 1,300 items. "By and large, what we're trying to do is sell programs, not products," says Rogers. "We can't exist as an item-by-item company." Chastened, Jacobs is keeping hands off. He refuses to put in more money and doesn't always attend board meetings, although he continues to own 100% of the company. Jacobs has even brought back Ned Mitchell, Brach's former president, who was forced out. Mitchell is now a member of the board.

Rogers estimates that it will take three years to turn the company around— it's now slightly profitable. He projects 1993 pretax profits of around $70 million on sales of $800 million, which would bring Brach back to where it was when Jacobs put it on the downhill path. "It's not a quick fix," says Rogers. "You only get to play Valentine once a year. If you screw it up, you have to wait a whole year. And if you screw it up, they won't buy from you."

For Rogers, it will be Valentine's Day when he has nursed Brach back to the point where Klaus Jacobs can get his money back.

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Inter-Continental Hotels was already having a hard time earning back the high price paid for the chain in 1988. Then people stopped traveling.

No more chocolates

By John Marcom Jr.

OF ALL THE DEALS done in the booming 1980s, few now look as poorly conceived as the 1988 purchase of Inter-Continental Hotels. Japan's Saison Group, controlled by billionaire Seiji Tsutsumi, paid Britain's Grand Metropolitan Plc. $2.25 billion for the chain. Much of the money was borrowed.

Perhaps sensing the trouble that lay ahead, Tsutsumi quickly sold an interest to Scandinavian Airlines System, which injected $500 million in equity (FORBES, *July 8*). SAS got a 40% stake in a 101-hotel chain burdened with debt approaching $1.5 billion.

The new owners did boost operating income somewhat during their first two years of ownership, but not enough to cover the costs of the debt. Last year the chain lost $43 million, pretax, on revenues of about $775 million.

Worse was in store. With the Gulf war raging earlier this year, a big U.S. client canceled bookings under which guests in its incentive program would have stayed at Inter-Continental's two hotels in Paris. "One phone call cost us 30,000 room-nights," shudders John van Praag, 54, a Dutch-born former McKinsey consultant who became Inter-Continental' chief executive last year. "We looke over the edge, and we didn't se bottom." Van Praag figures the Gul war could have wiped out the com pany's 1991 projected $125 millior operating profit without the cost-sav ing measures taken in its wake.

Say this for van Praag: He reactec quickly. He gave up hope of embark ing on $450 million in needed refur bishments. And he saved another $85 million by eliminating expenses tha most customers, usually senior business travelers, probably won't notice. For example, guests turning in for the night at Inter-Continental hotels around the world no longer find a chocolate on their pillow. "Nobody eats them anyway," says van Praag. Other subtle measures include delaying maintenance projects in service areas, putting staff on reduced working hours and suspending the group's image advertising.

More important than chocolates are "perfect messages, perfect faxes" and other services, says van Praag, for "the senior businessman who still has to file an expense report at the end of the trip."

Van Praag knows that no matter how carefully it is done, cutting costs will not fill up the chain's nearly

Inter-Continental's John van Praag **First struggling with a huge interest burden, then the impact of the Gulf war.**

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The restored lobby of Inter-Continental's Le Grand Hôtel in Paris
A much-needed upgrading of other hotels has been put on hold.

40,000 rooms. Occupancy this year so far has averaged 57%, versus 64% last year. To boost the figures he must spend money.

Many of the hotels' locations, claimed in the early years of jet travel by the chain's founder, Pan Am, are as good as they ever were. But under Inter-Continental's parsimonious British owner several of the hotels were allowed to deteriorate and now look tatty.

To attract people who can afford $300 and $400 a night for a hotel room, van Praag intends to resume, as quickly as possible, the program to upgrade his hotels. One step in this makeover, taken before the Gulf war shut down spending, involved Inter-Continental's Le Grand Hôtel in Paris, just steps from the opera. In a $24 million refurbishment of the hotel's public rooms, a hideous suspended ceiling—someone's cheap idea of modernization in the 1960s—was removed from the central courtyard to reveal a handsome iron-and-glass roof. Now the Grand's main floor looks every bit as grand as its neighbors'—and more deserving of the $415 a night the hotel charges for a double room.

Van Praag senses that hotel property prices, in the U.S. especially, may be bottoming out; he says he'd like to be a buyer. In New York, for example, the Inter-Continental, just off Park Avenue on 48th Street, isn't up to the quality of its prime properties in, say, London and Paris. Van Praag says he would be interested in either renovating the New York hotel or perhaps acquiring a fancier one.

Before Tsutsumi bought the chain, Grand Met sold Inter-Continental's Atlanta hotel. Van Praag says Atlanta is just the sort of international city where the chain ought to be represented. A new Inter-Continental is under construction in downtown Los Angeles.

During an interview in Inter-Continental's offices overlooking London's Green Park, van Praag says that the chain's finances will soon be restructured to relieve some of the debt pressures. But until Inter-Continental's business picks up, van Praag will have trouble generating internally the money necessary to bring occupancy rates up. By the same token, not spending the money will keep occupancy rates low. Recognizing the bind he's in, van Praag says he will increase spending, but carefully and gradually.

"We're in for at least five more years of, if not recession, a slow economy," says van Praag. "I don't see the boom coming back in Britain, or the U.S., or even on the Continent, except maybe for Germany. We should plan and organize for the five remaining years of seven lean years." That's not a particularly rosy assessment, but it's probably a realistic one—for Inter-Continental and for others in the business travel industry.

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During 17 years as Warner Communications' boss, Steve Ross earned nearly $280 million. A leading compensation expert explains how Ross did it.

The prince of pay

By Graef S. Crystal

BASED ONLY on his salary, Time Warner's co-chief executive Steven Ross wouldn't make the finals for most outrageously paid executive. For the 14 years from 1976 through 1989, Ross, as head of Warner Communications, earned a total of $7.1 million, or $500,000 per year, on average.

But in terms of the total compensation packages he has negotiated for himself, Ross emerges as the country's best-paid chief executive of a major publicly traded company for the better part of two decades. From 1973 through 1990 Ross made close to $280 million. Average annual compensation: $15.5 million per year. Few chief executives get truly rich on salary alone. If corporate executives crash The Forbes Four Hundred, they usually do so because they have a substantial interest in a company that flourishes. They get rich off market appreciation, not off salary. Ross has gotten rich off salary, bonuses and other incentive arrangements.

To be sure, Ross has paid himself well for a job well done. From 1973 (the first year for which compensation statistics on Ross are readily available) through January 1990, when Time acquired Warner, the company returned a compound 23.9% a year (counting both stock appreciation and dividends) to its shareholders. When this performance is compared with that of the 500 companies that had the highest market capitalization in 1990 and whose stock had been publicly traded since at least 1971 (a group of 407 companies), only 17% did better by their shareholders.

Ross was good to his shareholders, but better to himself. His remuneration is a lesson to any executive looking to creatively enhance his compensation, or any board member determined to watch out for shareholders.

From 1973 through 1975, Warner did not provide a detailed breakdown of Ross' salary and bonus. All we know is that his cash compensation totaled $1.1 milllion. But for fiscal 1976, when Warner began disclosing

This article is adapted from "In Search of Excess: The Overcompensation of American Executives," by Graef S. Crystal, to be published by W.W. Norton & Company.
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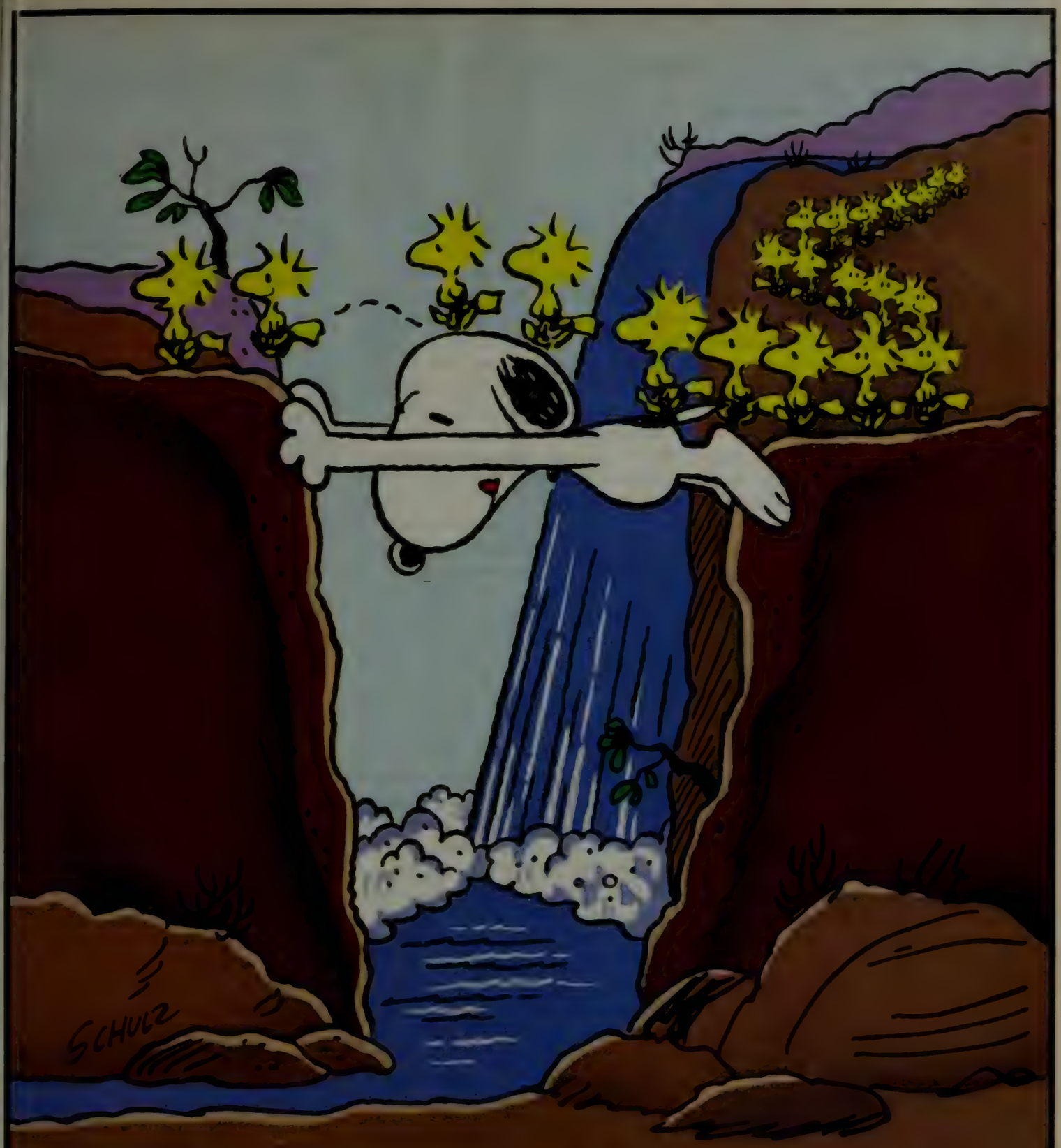

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executive bonuses in its proxy statements, Ross received a $254,455 bonus on a salary of $260,000—both fairly modest.

In 1977 Warner created a ten-year bonus plan that would become the blueprint for Ross' $280 million or so in earnings. Ross was promised 0.625% of Warner's aftertax profits, provided the most recent five-year average was at least $45 million. If they didn't reach that mark? The board had the right to ignore that hurdle and pay Ross a bonus anyway. From 1977 through 1986 the bonus plan paid Ross a total of $9.8 million.

In 1987 Ross persuaded Warner's board to establish a sweeter ten-year bonus plan. Warner raised, by 60%, the percentage of profits granted to Ross as a bonus—from 0.625% to 1%. At the same time, the board effectively lowered the minimum profitability standard that Ross had to meet in order to collect. When he negotiated his 1977 agreement, Ross' $45 million profit threshold represented a 16.8% return on equity. When he negotiated the 1987 agreement, Ross' profit threshold—which was raised to $75 million—represented a 6.4% return on equity. In a sense, Ross had to do less to earn more.

In 1987, the first year the new bonus plan was in place, Ross' bonus jumped to $3.3 million, nearly double what he had been given the year before. In each of the next two years he received, respectively, $4.2 million and $3.6 million. From 1973 through 1989, then, Ross got $29.4 million in cash salary and bonus.

Steve Ross may be paid better than most people, but like the rest of us he works hard to minimize his taxes. For any well-paid executive, a good way to do this is with deferred compensation plans, whereby a portion of his salary is not paid out but accumulates, untaxed and earning a return, for payment later.

But Ross' deferred compensation was not a deduction from the salary and bonus figures cited above, but rather an addition to them—a kind of bonus on a bonus. In 1977 the amount deferred amounted to 25% of the sum of his salary and bonus. For the next five years, that compensation rose in steady five-percentage-point increments, until it reached 50% of his combined salary and bonus.

In 1982 Ross earned a salary of $350,000 and a bonus of $1.54 million. In addition, he received a deferred compensation award equal to 50% of his $1.89 million cash compensation, or $945,000. So in fact his cash and deferred compensation totaled $2.84 million.

Even though the deferrals amounted to only 50% of his salary (no bonus included) from 1983 through 1989, they added up. In all, from 1977 through 1989, Ross got $6.4 million of deferred compensation, an average of about $500,000 per year.

No compensation angle escaped Steve Ross' attention. Look again at his deferred compensation plan. The fine print let Ross take for himself some of the tax benefits that would normally have accrued to Warner. Here's how this angle worked:

Suppose that $100,000 were placed in Ross' deferral account and it appreciated to $200,000 before being paid out to Ross. This would result in a deduction for Warner; assuming a corporate tax rate of 34%, the company would be able to lower its corporate tax bill by $68,000. But rather than let Warner take full advantage of that benefit, Ross took much of the tax advantage on the appreciation in his deferral account. In this example, he would have ended up with an extra $34,000. Again, these rather small increments grew into a nice piece of change. As of 1987, payments under this form of bonus arrangement totaled $2.3 million.

We haven't even reached the biggest payments—those involving various forms of stock and stock options.

Ross had been given some Warner option grants prior to 1969. By 1978, he had options on 105,000 shares. By March 1981, these had profited Ross to the tune of $12 million. The tune became even more melodious when he exercised another option in 1987, which netted him $8.8 million more.

Under a plan approved in 1982, Ross received 575,000 Warner "Bonus Units." Essentially these were stock options, except that Ross was allowed to collect dividends as if he owned the shares. In 1990, when Time acquired Warner for $70 a share, these Bonus Units, for which Ross paid nothing, were cashed out for $57.2 million (not counting $12.4 million he received earlier from a similar Bonus Unit grant).

Including the dividends he received, the Bonus Units produced payments of $73.6 million. This plus his salary, bonus, deferred compensation and tax savings scheme brings Ross' compensation from 1973 through 1989 up to $75.3 million. Even including the $57.2 million he received from the Bonus Units in 1990, we're still less than halfway to the total.

In recent years, restricted stock has become a popular compensation medium. Restricted shares are free shares whose resale is prohibited typically for five years. The shares are given simply for remaining with the company.

When Ross received his first restricted stock grant under a plan adopted in 1970, hardly anyone had heard of such compensation. The initial grant was for just 50,000 shares. But in 1987 he was granted the equivalent of 900,000 more restricted shares of Warner. After Time agreed to acquire Warner in 1989, these shares were worth $63 million.

Most option plans are based on the premise that stock prices will rise. But as a result of a prolonged bear market during the 1970s and early 1980s, a lot of chief executives lost faith in the ability of the stock market to place the correct value on their companies' shares. As a result, many companies, including Warner, adopted alternative long-term incentive plans. For Ross, this substitute for stock options took the form of book-value stock pur-

Steve Ross' compensation as Warner Communications' boss totaled almost $280 million. This chart assumes that pay from Ross' long-term incentives was spread out over a period of years, rather than received in lumps. Either way, the total is impressive.

chases. Under a Warner plan approved in 1982, Ross got a grant of 2,000 units. He was permitted to purchase shares at their current book value and, eventually, to resell them to the company at their future book value, sidestepping the vagaries of the stock market.

Why would a man of Ross' dimensions bother with the right to purchase a paltry 2,000 shares of Warner's book-value stock? Well, the proxy actually mentioned 2,000 units, each the equivalent of 75 shares; Ross' 150,000 shares of company book-value stock turned into 300,000 after a 2-for-1 split in 1986.

Ross' book-value stock was cashed out when Time acquired Warner. According to the rules, Ross should have received book value for the units. But, thanks mainly to the huge Atari write-offs in 1983 and 1984, Warner's book value in 1989 was around $11 a share; cashing out would have produced a small loss for Ross. So Warner's board bent the rules and redeemed the units at $72 per share. This netted Ross another $17.8 million.

Up to this point in the story, Steve Ross' compensation package has seven basic aspects: salary, bonus, deferred compensation, ordinary stock options, Bonus Unit options, special book-value stock options and the restricted stock. But when Ross signed his new ten-year contract with Warner in 1987, he received yet another kind of stock option on 1.5 million shares, with gains payable over the period 1989 through 1996.

Under the terms of this option, Warner would generally give Ross the difference between the option's strike price ($30.875 a share) and the average daily high price during the eight consecutive weeks within the two years preceding the date of payout during which the price of Warner stock was the highest.

Confusing? Yes, but there was no confusion about the intent, which was to put more money into Ross' pocket. Take as an example the option grant set to expire at the end of 1991. In determining the amount to be paid, the company would wait until Dec. 31, 1991 and find that eight-week period between Jan. 1, 1990 and Dec. 31, 1991 when the company's stock price was the highest. The company would then subtract the strike price of $30.875 from this high stock price and multiply the remainder (if positive) by the number of shares granted.

The options were set to expire from 1989 through 1996. But that schedule was upset when Time acquired Warner. So for the sake of simplicity and fairness to Ross, Warner's board valued all of his 1.5 million option-like shares using the alltime-high price of $70 per share for Warner stock, bringing Ross a cool $58.7 million.

The $121.7 million owed to Ross from the 900,000 restricted shares and the 1.5 million option-like shares was placed in two deferred compensation trust accounts. Ross received about $29 million in late 1989, with the rest to be paid out through January 1997—that is, unless he quits, gets fired or Time Warner goes bust.

All told, this brings Ross' total 1973 to 1990 compensation to $275.5 million. This includes more than $3.5 million in assorted perquisites, insurance payments and additional bonuses, as well as $75 million from the Bonus Units and book-value stock cashed out when the acquisition closed.

The future promises more of the same. When Time bought Warner, Ross negotiated a 15-year employment contract with the new Time Warner. The new contract is based on many of the well-honed principles of his old contracts with Warner.

Under the new contract, Ross' bonus percentage of the company's profits was decreased, from 1% of profits to 0.4%. But the definition of "profits" was broadened, from after-tax profits to pretax profits. The profit base, too, was broadened after the merger since the combined company is roughly twice as big.

Note, too, that in calculating these pretax profits, the charges arising from the amortization of goodwill associated with the acquisition of Warner will be ignored. So while Time Warner reported a loss last year of $227 million, as far as Ross' bonus payment was concerned there was a pretax profit of $519 million. Ross collected a bonus of $2.075 million (plus, of course, his salary of $800,000 plus another $400,000 in deferred compensation).

Another feature in Ross' new bonus formula provides that Ross will receive a further 0.2% of any pretax income in excess of 120% of the highest pretax income earned by the company during any of the three preceding years. For example: If, say, Time Warner's annual pretax, pre-amortization earnings in the 1991-93 period were $1 billion, and in 1994 the company earned $1.4 billion, then Ross' share in 1994 would be $6 million. That's 0.4% of $1.4 billion, plus 0.2% of $200 million.

But the real potential for Ross lies in Time Warner's stock market action. Under his current contract, Ross received options on 1.8 million Time Warner shares, at a strike price of $150 per share. If that's quite a ways up from the 80¾ a share at which Time Warner recently traded, it is also quite a discount from the 200 a share that Paramount Communications had bid for Time.

Putting a current value on these options is difficult. They expire in 2002. But let's give Ross the benefit of the doubt. Let's assume Time Warner's debt doesn't break the company, and that the shares hit 200 by 1995. In that case, Ross' option package would be worth $90 million then.

What of Ross' defenders, who point out that Ross greatly increased the value of Warner stock, and therefore earned every penny of his nearly $280 million? We ask them to remember the chief executives of those 70 or so companies with stocks that performed better than Warner's—and who were almost assuredly paid a great deal less. Few of them are crying poor mouth.

What has deep pockets, appeals to young women and is very, very profitable? The radio group owned by Nationwide Insurance.

Give 'em what they want

By Rita Koselka

TO PROMOTE its new contemporary hit format for radio station KDMX-FM in Dallas, Nationwide Communications Inc. is reportedly spending over $1 million for billboard and television exposure.

It's an unheard-of amount for a radio station to spend in a market that size—a tactic that gives the competition fits. But that's how $100 million (revenues) Nationwide does business. And why it's one of the fastest-growing broadcasters in the industry.

The big reason for Nationwide's muscle is that its 14-station group is part of cash-rich $11.3 billion (revenues) Nationwide Mutual Insurance Co., the fourth-largest U.S. auto insurer and underwriter of a full line of other insurance products.

A strange business for an insurance company? Maybe not. Nationwide brings to a volatile business a long-term and down-to-earth approach. "We want to be thought of as the long-distance runners in this business," says Steven Berger, 47, NCI's president, a radio veteran who started off as a college disc jockey.

Thus, in an industry known for high turnover, NCI has made a policy of promoting and developing talent from within. And though the company has a reputation for responding to changing market tastes, it never acts in haste only to have to repent at leisure.

Case in point: Nationwide's KZZP-FM in Phoenix was for years the market's leading top 40 station, getting over 12% of the audiences as recently as 1988. Then it fizzled to just 3% last year. While other owners might have resorted to expensive promotions to prop up the old format or rushed pell-mell into a new format, Nationwide calmly spent a year analyzing the market, talking to advertisers and devising a new format.

In April Nationwide completely relaunched the station under new call letters, KVRY-FM, with a contemporary hit format aimed at women aged 25 to 34. "We shut down the station for three days and [broadcast] a ticking clock interrupted every 15 minutes with 'If we build it they will come,'" says station manager Dale Weber. "There was nothing subtle about it." Accompanied by a marketing blitz, the station's share ratings for its new target market jumped over 50% in the three months ending in July.

Nationwide got into radio almost by accident. It started its first radio station in Columbus in 1946, as a kind of public service to its customers, licensing the station to the Ohio Farm Bureau to give farmers a voice in the city. Nationwide liked the business and learned to understand it and by 1982 had seven radio stations, three TV stations and a local cable operator. In 1985 Nationwide bought the radio group of Western Cities Broadcasting, doubling the size of the radio group. But Nationwide, with its long view, sat out the bidding frenzy for stations in the late 1980s.

Now, with prices weak, it is shopping again, recently buying stations in Houston and Dallas from Emmis Broadcasting. Nationwide now owns the leading stations in Columbus, Ohio; Tucson, Ariz.; and Baltimore, Md.; four television stations and a cable operation in Houston.

All told, it has a tight, neat little operation, with $100 million in sales.

Nationwide Communications' Steven Berger
Striving to be a long-distance runner.

Nationwide says its original investment, $11.5 million, would now bring $300 million on the market.

None of this has ingratiated Nationwide with competitors. Says Mark Litton, owner of WWHT, which bumps up against Nationwide's dominant WNCI station in Columbus: "I abhor the way they do business." The Nationwide stations have little shame when it comes to borrowing promotions off competitors and claiming them as their own. Last Christmas, for example, WNCI in Columbus copied within 20 minutes a listener fundraising drive started up by a rival station to help a family burned out of their home. Sporting? Maybe not. But it works. Because the larger NCI stations have a higher degree of name recognition, listeners tend to credit the promotion to Nationwide when talking to ratings agencies. Polls by the ratings agencies then determine how much a radio station can charge for ad time.

Experiment with new songs and new performers? Not Nationwide. It puts on a much lower percentage of new music than many of its competitors. This offends the record companies, which pin big hopes on new performers *(see story, p. 108)*. Nationwide's response is: We're in business to make a buck, not to make Steve Ross or David Geffen richer. If women in the 25-to-34-year-old group prefer familiar music, that's what Nationwide will give them. Thus Nationwide's emphasis on what is known as "adult contemporary" music, a cross-sampling of popular hits over the last decade. No rap, heavy metal or any of the thumping dance tunes that turn listeners—and advertisers—off.

Not all Nationwide's investments have been winners. NCI bought WKZL in Winston-Salem, N.C. in the early 1980s for $4.8 million. New competition—six new stations—shortly entered the market, sharply dropping the NCI station's ratings. Nationwide took its loss, selling out to a local group for $1.6 million.

But with his deep-pocket parent, Berger remains confident. "It's like having nine children, hoping they'll all behave at church on Sunday," he says. "Most of them wind up doing just fine." ■

ICF grew fat and happy on government and other cost-plus contracts. Then the real world interrupted that idyll.

Outside the beltway

By Janet Novack

AFTER BREEZING through a nine-city European road show to promote an upcoming stock offering late this spring, ICF International Inc. Chairman James Edwards called his chief financial officer from London's Heathrow airport. The voice at the other end had a sobering message: "You may have problems."

Edwards thought he had left behind a flourishing company. He had been boasting to European prospects about ICF's five-year compounded average annual earnings per share growth of 77% from its expansion in environmental engineering, particularly hazardous and nuclear waste cleanup. From just $10 million in sales in 1980, Fairfax, Va.-based ICF had grown to $625 million in revenues.

It was all true, but on June 18, 11 frenetic days after Edwards had delivered his London sales pitch, ICF abruptly canceled its stock offering. Reason given: Results for its fiscal 1992 first quarter, ended May 31, would fall short of expectations.

In July ICF took a $43 million pretax charge to cover dumping half a dozen businesses, most acquired in the last two years. It expects to lose over $1 a share in fiscal 1992, versus earnings of 68 cents a share in 1991. Today ICF trades around 9, off 50% from its 12-month high. Edwards knows it will be next summer, at best,

Paul Fetters

ICF Chairman James Edwards **"Maybe there was an excess of hubris."**

Paul Fetters

ICF President William Stitt

He turned around Kaiser Engineers. But success made ICF cocky, and it strayed from what it knew.

before ICF can retry its stock offering.

"We didn't go out on the road show and spend all that money to look like fools," says a chastened Edwards. What went wrong is a familiar story. A successful company got cocky and strayed from what it knew. The businesses to be divested range from seismic mapping to medical television programming to computer-systems integration. They accounted for 10% of ICF's fiscal 1991 sales.

Edwards runs ICF in tandem with President William Stitt, 50. Stitt joined ICF in 1970 and in 1973 became president. In 1974 he helped recruit Edwards, now 48, a Harvard Business School buddy (class of '67), from the Office of Management & Budget. They have equal pay packages and Stitt describes them as "Siamese twins." Together, they directed ICF as it followed the flow of government dollars, moving on from urban planning consulting to the environment, health and energy.

ICF has landed contracts in a variety of "hot" areas. It has a $37 million federal contract to study global warming; a $15 million federal contract to set up a center to prevent drug and alcohol abuse by pregnant women; and a $480,000 contract (funded by the U.S. government) to study hazardous waste management in the Slovak Republic.

In the early 1980s, the pair began to add engineering and design as well as consulting services, the better to cater to their biggest client, the Environmental Protection Agency. Then one day the near-broke Kaiser Engineers Group, a remnant of the Henry J. Kaiser empire, came onto the market. Kaiser, with revenues of $280 million, was 2½ times ICF's size. For just $20 million, including the cost of buying its bank loans at a deep discount, ICF acquired San Francisco-based Kaiser. After some cost-cutting, including laying off 100 employees, Stitt turned the business around. By December 1989, ICF was riding high and sold its first 4.1 million public shares for $8.50.

That was the sucker punch. ICF had successfully moved from consulting on environmental issues into environmental engineering. So, Edwards says, ICF figured it could as easily go from consulting on health, energy and information technology into running businesses in those fields.

Stitt and Edwards claim that most of the problems occurred all of a sudden. Maybe so, but they trace to a common fault: ICF's management was used to working on cost-plus consulting and engineering contracts. Cost-plus contracts carry thin profit margins. But once a contract is acquired, the profit is nearly automatic. ICF's new subsidiaries, by contrast, were creating products, such as seismic charts of the Soviet Union, that had then to be sold to recoup investment.

For all their Harvard M.B.A.s with high distinction, Stitt and Edwards seem shocked by how swiftly losses can mount in the world outside cost-plus. (Ah! The cloistered lives of Washington's beltway denizens.)

Stitt insists ICF's remaining core business can generate internal sales and earnings growth of 15% a year. The Department of Energy has been ramping up cleanup spending (to $3.2 billion this year) and estimates it will need to spend $41 billion from 1993 through 1997 to clean up the nation's nuclear weapon facilities.

Perhaps, but ICF will have to compete with construction giants and defense contractors for this work. It has a leg up on some of them. It already has contracts at nine nuclear weapons facilities. ICF also hopes to profit from the new Clean Air Act and from industry's growing concern for reducing waste. Private-sector work is now about 50% of revenues.

"Maybe there was an excess of hubris," Edwards now concedes. There was more: An illusion that the whole world was like Washington, D.C. ■

At Cadillac, A New Approach Creates A Dramatic Departure.

Eldorado has established a legendary reputation with personal luxury coupe buyers since it was introduced in 1953.

The 1992 Eldorado's design and engineering offers that rare synthesis of character we loved about yesterday with the sophisticated comfort and performance technology we will appreciate about tomorrow.

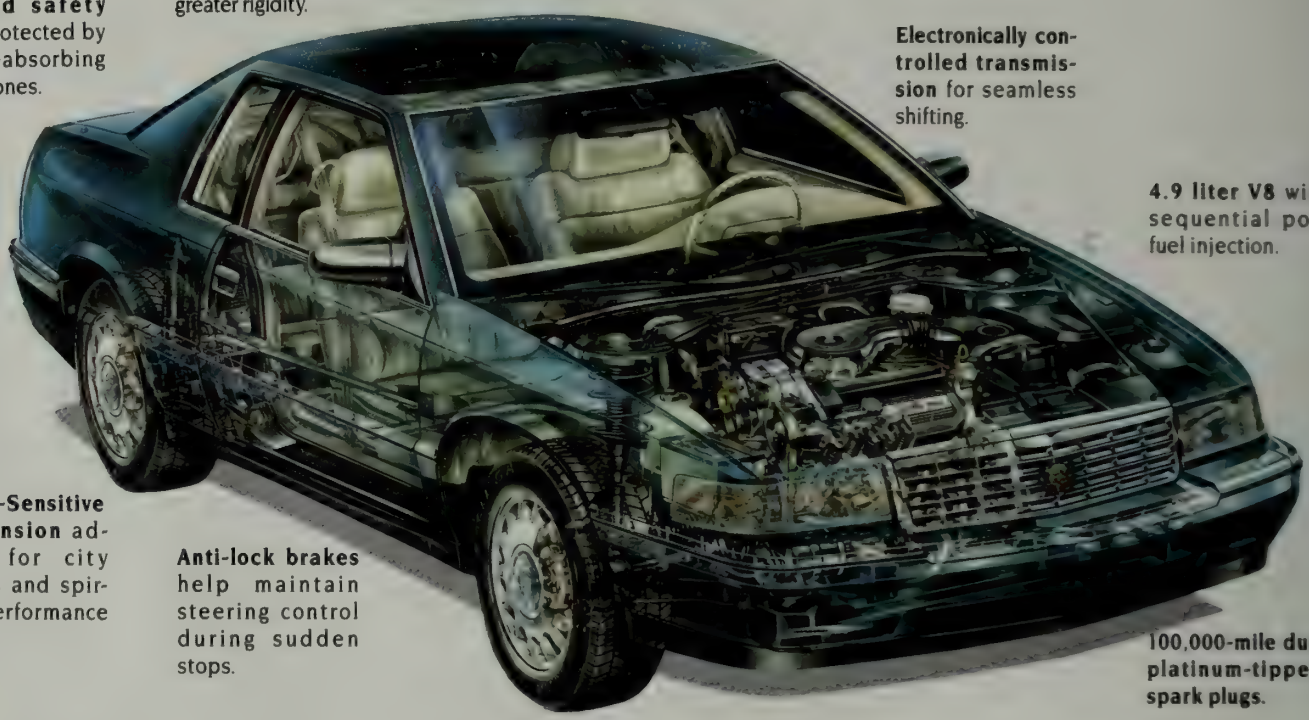
The 1992 Cadillac Eldorado. The pure joy of driving returns.

Substance takes shape, Cadillac Style.

Elevate Your Senses.

Performance takes shape upon settling behind the wheel. Your first inclination will be to buckle in, turn the key, shift into drive and press the accelerator.

Your instinct is rewarded. A sense of exhilaration builds as the 4.9 liter V8 moves you forward smoothly and powerfully. With Eldorado's fully independent Speed-Sensitive Suspension, you approach winding pavement with confidence, and exit curves with a new understanding of the word nimble. Even its body structure has been designed to be more rigid, to help absorb inconsistencies in the road.



Strike a Balance.

Power, of course, is essential. The type that's both plentiful and spirited. Next, you integrate an electronically controlled transmission. One that makes gear changes practically undetectable. Even the wide, 16-inch Michelin touring tires are specially tuned to Eldorado's suspension. Eldorado possesses technology that works in harmony, to provide a total driving experience. Not to mention pure joy.

CADILLAC.
STYLE

A Systems Approach to Safety.

Safety takes shape with the philosophy Cadillac applies to automotive safety. The 1992 Eldorado meets or exceeds the demanding requirements not only of the United States but Europe and Japan as well.

A rugged steel safety cage is designed to remain intact during a collision. The cage is bolstered front and rear by crush zones, which absorb energy impact to help protect the interior compartment. Side guard door beams not only resist side intrusion, they also helped the Eldorado successfully complete dynamic side-impact testing, even though this is not a government requirement until the 1997 model year for all car lines. Sensors with gold-plated internal contacts provide superior conductivity to activate the driver's-side Supplemental Inflatable Restraint System (air bag), which is to be used with the safety belt system.

This is the systems approach to safety at Cadillac. When designing a safer automobile, all systems work together to provide their greatest benefit–protecting you and your family.

The 1992 Eldorado. Substance takes shape, Cadillac Style.

1992 CADILLAC ELDORADO

Front-engine, front-wheel-drive coupe. 5-passenger, 2-door steel body.

ENGINE:

4.9 liter V8, aluminum block, iron heads. Bore x stroke 3.62 x 3.62 in (92.0 x 92.0 mm). Compression ratio 9.5:1. Fuel system sequential port fuel injection. Power net 200 bhp @ 4100 rpm. Torque net 275- lb-ft @ 3000 rpm.

DRIVETRAIN:

4-speed electronic automatic transmission. Final-drive ratio 2.97:1 Eldorado Touring Coupe: 3.33:1

MEASUREMENTS:

Wheelbase 108.0 in. Track front/rear 60.9/60.9 in. Length x width x height 202.2 x 75.6 x 54.0 in. Curb weight 3604 lb. Coefficient of drag 0.33. Fuel capacity 18.8 gal. Luggage capacity 15.3 cu ft.

SUSPENSION:

Independent front, with electronically controlled dampers, coil springs, anti-roll bar. Independent rear, with electronically controlled dampers, transverse leaf spring, anti-roll bar.

STEERING:

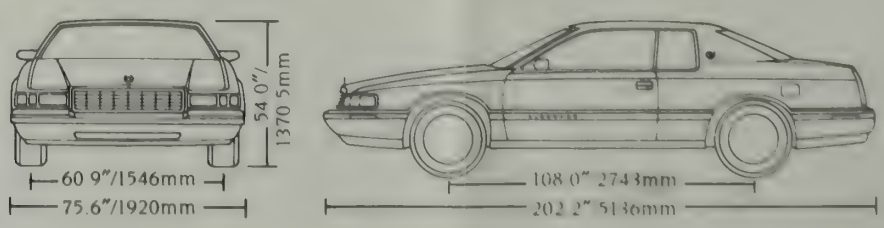
Rack-and-pinion, power-assisted Turns lock to lock 2.8

BRAKES:

Power-assisted vented discs front, solid discs rear. Anti-lock system

WHEELS AND TIRES:

16 x 7.0-in forged aluminum wheels 225/60R16 Michelin® XGT4 tires; Eldorado Touring Coupe: 225/60HR16 Goodyear® Eagle GA tires



In the last round of bank mergers, First Alabama Bancshares prepared for a wedding. No suitor ever showed. Now it's the one doing the courting.

Not for sale

By Claire Poole

BACK IN 1987, three years before his retirement, First Alabama Bancshares Chairman Willard L. (Jack) Hurley effectively put a for-sale sign on the door by announcing that the $4.4 billion (assets) holding company was pulling back on acquisitions.

Takeover rumors had already popped the bank's over-the-counter stock to the mid-20s from a low of around 16 the previous year. But a buyer never came. Acquisitive bankers passed over Alabama banks for targets in faster-growing markets like Georgia, Tennessee and Florida. First Alabama Bancshares settled back to around 16.

But if the shareholders were disappointed, they had no reason to be. The stock recently traded around 28, for a price/earnings ratio of 12 and a 70% premium over book value—both high for a bank these days. Looking back, J. Stanley Mackin couldn't be happier. Mackin, 59, took over as chairman last year, and is now sitting with one of the strongest bank holding companies in the country. Instead of waiting for a suitor, Mackin is now the one doing the courting. Having paid over $24 million in the past year for nearly $1 billion in banking and thrift assets, Mackin is eager for more. He hopes to double the size of the bank to $12.6 billion by 1995.

Mackin's acquisitions so far have been relatively modest. For example, he bought $466 million in deposits from City Federal Savings & Loan in Birmingham for $11.7 million. But every bit counts, and today his bank has over 170 banking offices in three states. Mackin has his eye on two closed Resolution Trust Corp. thrifts that will be up for auction later this year. He's certainly in a strong position to buy more: Now with $6.3 billion in assets, Birmingham-based First Alabama is one of the best-capitalized banks in the country, with an equity-to-asset ratio of 8.6%.

Mike Clemmer/Picture Group

First Alabama's J. Stanley Mackin
"There's no for-sale sign on the door."

The bank had one of the soundest loan portfolios in the country last year, with only $6,000 in nonperforming assets for every $1 million in loans. First Alabama is one of only five banks in the country to be given an "A" grade by BankWatch, a well-respected rating service. It's in good company: The other four include J.P. Morgan, Wachovia, Fifth Third and United Missouri.

How has First Alabama done so well? By avoiding banking fads. Since its founding in 1971, First Alabama has kept most of its lending in the state rather than chasing loans in areas where it had no experience. The bank's loans average a modest $250,000 to $2 million, spread evenly among consumer, commercial and real estate loans. Thus no single bad loan can cause big trouble. First Alabama has avoided highly leveraged transactions except with customers it already knew.

An example of First Alabama's hard-nosed attitude toward lending occurred in the mid-1980s, when it turned down what later turned out to be one of the biggest fiascoes in the state. First Alabama took a close look at the Birmingham Turf Club, a 330-acre racetrack facility complete with a fancy clubhouse, stables for 1,000 Thoroughbreds—and an $80 million price tag. Mackin didn't like the smell of it. "We didn't feel that we needed to take a permanent position in that facility out there," he says. A year after it opened in 1987, the track went bust, sticking five southeastern banks, including AmSouth, First Alabama's next-biggest competitor and the track's lead lender, with nearly $40 million in bad loans.

Steady growth has helped First Alabama achieve a return on equity of 14.2% at the first half of this year, easily exceeding other southern banks (13.1%) and the industry as a whole (12.6%). Its goal: to reach 15% by 1995. John Works, analyst at Keefe, Bruyette & Woods, thinks that's not unrealistic. The analyst has nudged his earnings projections to $2.35 a share this year and $2.60 next.

Perhaps inevitably, First Alabama itself is now being talked about again as a possible takeover target. The usual suspects include NCNB in Charlotte, N.C., SunTrust in Atlanta and Wachovia in Winston-Salem, N.C. But a takeover is probably unlikely; with its stock selling at 1.7 book value, a would-be acquirer would have to pay a probably unrealistic premium to get the bank. Says Mackin: "I don't intend to have anything to do with selling this bank. There's no for-sale sign on the door." He adds: "We're readier than we've ever been to expand."

Elevate Your Senses.

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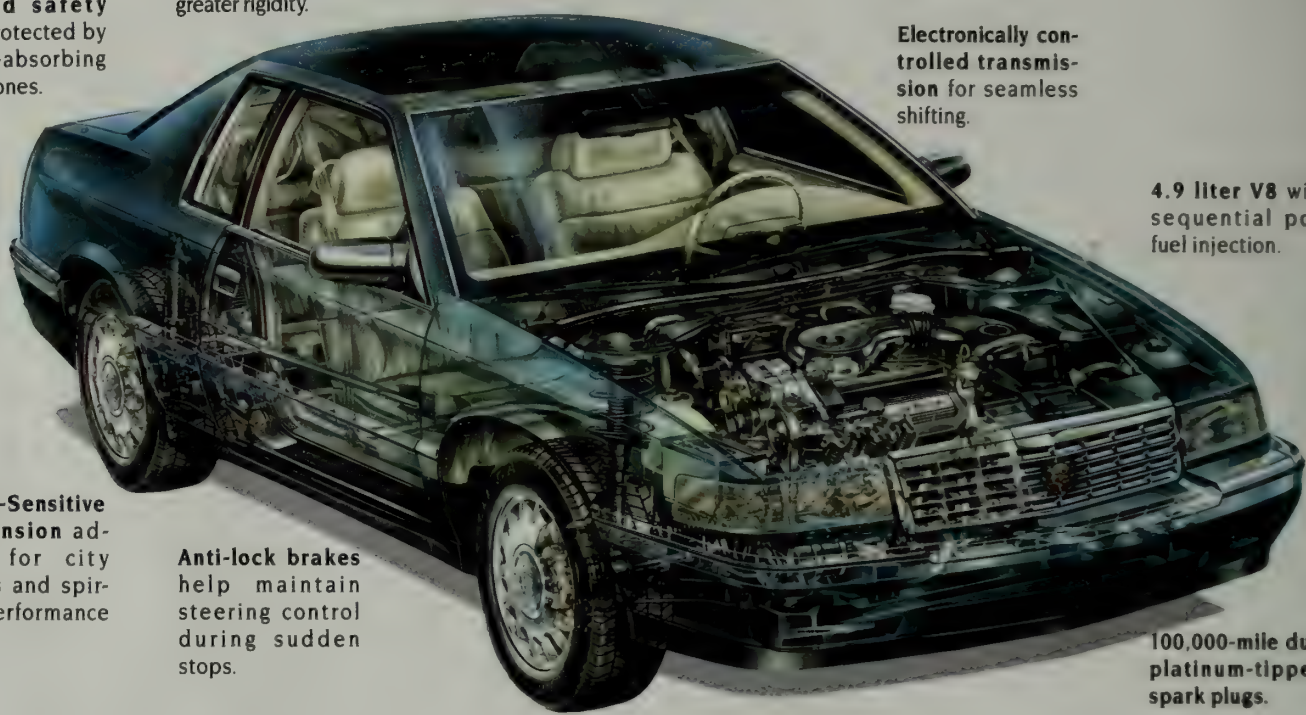

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CADILLAC.
STYLE

The handfitted leather seating areas of the Eldorado Touring Coupe.

A Refined Difference.

Refinement takes shape. It begins when you sit down. Immediately you notice how the seats seem to have been sculpted specifically to your dimensions. Optional premium leather seating areas soothe you. Patented lumbar supports are available to pinpoint individual comfort settings at the desired height and depth, thus reducing lower-back discomfort during long trips.

And no matter what driving situation you might encounter, you feel you will be held firmly in place. Surveying the instrument panel, you note how essential controls are thoughtfully placed to allow for an unobstructed view. Within arm's reach, a teardrop-shaped dash turns the horizon into a gentle slope. Openness and order are everywhere you look.

The new perspective of the Eldorado Touring Coupe

One Owner at a Time.

As the owner of a 1992 Eldorado, you're afforded considerable ownership privileges. Such as the assurance of a no-deductible, Gold Key Bumper to Bumper Warranty.*

With it, every main component is covered. From engine to suspension. Comfort features to safety systems. For 4 years or 50,000 miles. That way, your driving pleasure is assured for years to come.

Additionally, you have the support of 24-hour Cadillac Roadside Service®, the most comprehensive program of its kind for all Cadillac owners.

Cadillac provides on-the-spot service when you need it the most–nights, weekends and holidays. If necessary, a highly trained service technician will be dispatched in a special vehicle that carries genuine GM parts, to get you back on the road with a minimum of inconvenience.

For 12 months/12,000 miles, it now offers complementary emergency road service, including free gasoline delivery, and trip-interruption reimbursement. And no-charge trip routing for 4 years/50,000 miles.

On-the-spot assistance from more participating dealers than any other roadside service program.

At Cadillac, substance takes shape. One owner at a time.

Remote Keyless Entry is standard on the Eldorado Touring Coupe.

Please call

1-800-333-4CAD

for product literature and the location of your nearest Cadillac dealer.

CADILLAC. STYLE

The 1992 Eldorado. Substance takes shape, Cadillac Style.

Buckle Up America!

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SEVILLE®, ELDORADO®, ALLANTE®, FLEETWOOD®, BROUGHAM®

*See your dealer for terms of this limited warranty.

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Mackin's acquisitions so far have been relatively modest. For example, he bought $466 million in deposits from City Federal Savings & Loan in Birmingham for $11.7 million. But every bit counts, and today his bank has over 170 banking offices in three states. Mackin has his eye on two closed Resolution Trust Corp. thrifts that will be up for auction later this year. He's certainly in a strong position to buy more: Now with $6.3 billion in assets, Birmingham-based First Alabama is one of the best-capitalized banks in the country, with an equity-to-asset ratio of 8.6%.

Mike Dilemmer/Picture Group

First Alabama's J. Stanley Mackin
"There's no for-sale sign on the door."

The bank had one of the soundest loan portfolios in the country last year, with only $6,000 in nonperforming assets for every $1 million in loans. First Alabama is one of only five banks in the country to be given an "A" grade by BankWatch, a well-respected rating service. It's in good company: The other four include J.P. Morgan, Wachovia, Fifth Third and United Missouri.

How has First Alabama done so well? By avoiding banking fads. Since its founding in 1971, First Alabama has kept most of its lending in the state rather than chasing loans in areas where it had no experience. The bank's loans average a modest $250,000 to $2 million, spread evenly among consumer, commercial and real estate loans. Thus no single bad loan can cause big trouble. First Alabama has avoided highly leveraged transactions except with customers it already knew.

An example of First Alabama's hard-nosed attitude toward lending occurred in the mid-1980s, when it turned down what later turned out to be one of the biggest fiascoes in the state. First Alabama took a close look at the Birmingham Turf Club, a 330-acre racetrack facility complete with a fancy clubhouse, stables for 1,000 Thoroughbreds—and an $80 million price tag. Mackin didn't like the smell of it. "We didn't feel that we needed to take a permanent position in that facility out there," he says. A year after it opened in 1987, the track went bust, sticking five southeastern banks, including AmSouth, First Alabama's next-biggest competitor and the track's lead lender, with nearly $40 million in bad loans.

Steady growth has helped First Alabama achieve a return on equity of 14.2% at the first half of this year, easily exceeding other southern banks (13.1%) and the industry as a whole (12.6%). Its goal: to reach 15% by 1995. John Works, analyst at Keefe, Bruyette & Woods, thinks that's not unrealistic. The analyst has nudged his earnings projections to $2.35 a share this year and $2.60 next.

Perhaps inevitably, First Alabama itself is now being talked about again as a possible takeover target. The usual suspects include NCNB in Charlotte, N.C., SunTrust in Atlanta and Wachovia in Winston-Salem, N.C. But a takeover is probably unlikely; with its stock selling at 1.7 book value, a would-be acquirer would have to pay a probably unrealistic premium to get the bank. Says Mackin: "I don't intend to have anything to do with selling this bank. There's no for-sale sign on the door." He adds: "We're readier than we've ever been to expand."

Ever wonder why the record business makes so many people so rich?

"What's not to love?"

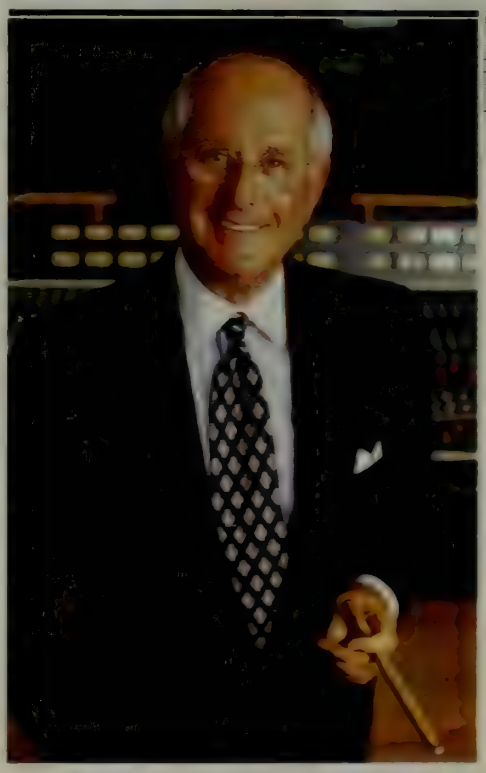
By Peter Newcomb and Christopher Palmeri

JETTING ON a Gulfstream II, Charles Koppelman, chairman of New York-based SBK Records, explains why he's such a happy guy.

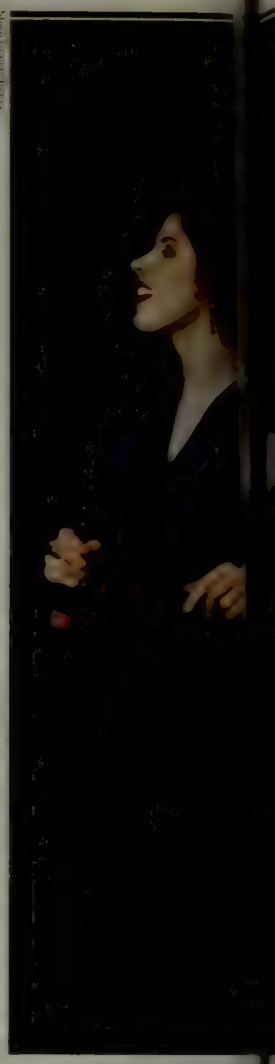
In 1990, its first full year, Koppelman's fledgling firm had two of the top four bestselling albums and became one of the hottest labels around. Koppelman's net worth is approaching $100 million. "I love this business," Koppelman proclaims, between puffs on a $20 Cuban Cohiba cigar. "What's not to love?"

Not all ex-performers have as much to be happy about as Koppelman. A native New Yorker with a still-intact Queens accent, Koppelman started in the music industry in the late 1950s, singing with a trio called the Ivy Three. Its only hit, "Yogi," was a takeoff on Yogi the Bear. On the side, he previewed songs by aspiring songwriters for music publisher Don Kirshner. He proved so good at picking winners that Kirshner made him director of his publishing company. Pretty soon Koppelman concluded: Why sing for your supper when you can make more money from other people's songs?

Koppelman hit the big time in the Sixties when he landed the publishing rights to such acts as the Turtles and the Lovin' Spoonful. Today his company, SBK Records, has more than a dozen performers under contract. As a record impresario, Koppelman, at 51, stands to become the second richest in the U.S. record industry, second only to near-billionaire David Geffen (FORBES, *Dec. 24, 1990*).



Aaron Rapoport/Black Star



Neal Preston/Sygma

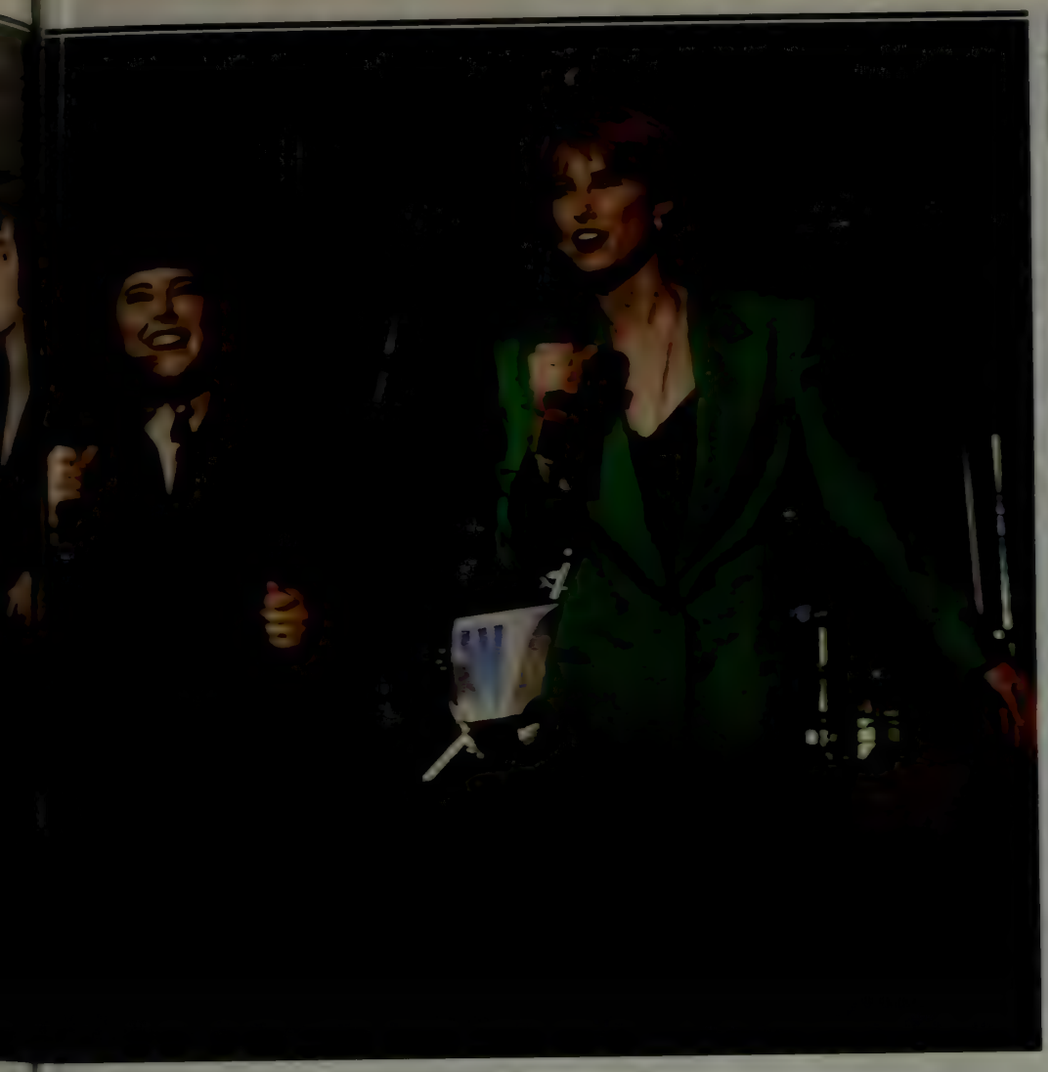
LEFT: Charles Koppelman RIGHT: Wilson Phillips and Vanilla Ice **Koppelman makes them famous. They make him rich.**

The ex-singer's hottest acts right now are the pop trio Wilson Phillips (pictured on the cover) and white rapper Vanilla Ice. Perhaps because he is more mainstream than black rappers, Vanilla Ice outsells most of them by far—a prime example of Koppelman's ability to ride a trend. Together the two new acts, Ice and Wilson Phillips, have sold over 20 million albums worldwide, generating over $100 million in sales for SBK. Figure SBK's gross profits at about $3 per album, or $60 million.

The FORBES compilation of the Top 40 highest-paid entertainers *(p. 113)* contains 18 musical acts this year. At one time or another Koppelman controlled some of the publishing rights to two-thirds of them.

He, partner Martin Bandier and former partner Stephen Swid bought CBS' music publishing division in 1986. Two years later they sold it to Thorn EMI for $295 million, more than twice what they paid for it. Koppelman and Bandier then formed SBK Records in a 50-50 partnership with Thorn. In a deal struck earlier this year, Thorn will pay Koppelman and Bandier a mulitiple of SBK's revenues in 1993 that could value their half of the company at $150 million or more.

Koppelman has his fingers in many pies: music publishing, record producing and talent management. A secret of his success is that he runs his far-flung business as if it were a small business. He watches over everything, rarely delegating. SBK Records has released just 20 albums in its two years of existence; that's as many as a major label might release in a couple of



months. But 7 of them have surpassed 500,000 copies sold, a success ratio rare in the business. "That's because the big companies are being run by financial guys, not music guys," Koppelman says. "The record gets turned over to marketing and promotion departments, and the guy that signed the act has little input."

Koppelman's success demonstrates the changing economic landscape in the music business. As costs for production and marketing have risen, the impresarios—the money people and deal packagers—have become as important as the performers. Maybe more so. And a Koppelman, who is risking his own money and knows the whole business intimately, has an advantage over the big companies like PolyGram N.V. and Bertelsmann Music Group with their bulging overheads, companies that have gotten so big that the talent rarely deals with the top gun.

"For Warner Bros. there is always another record," observes Vanilla Ice's music attorney Peter Lopez. "When Charles feels resistance he doubles his efforts."

As the record business swelled from $3.8 billion in 1980 to last year's $7.5 billion, it became both more competitive and more concentrated. It cost more and more to bring out records and get the public's attention for them. For those performers who hit it big, the rewards have been astounding. Thus the proven winners, like Michael Jackson, Madonna and Aerosmith, have been able to demand bigger and bigger advances. But even as the big acts were gaining in bargaining power, the aspiring and lesser names were losing bargaining power. Why? Because they were increasingly at the mercy of the money people, without whom they couldn't hope to get started.

All of this has turned the record business—as it did earlier the movie business—into a capital-intensive affair. Thus the growing importance of the entrepreneur who can mobilize the capital and market the talent. That is why David Geffen, who is not known for his ability to sing or dance or play an instrument, has become so rich in the record business.

"Everyone in this business will tell you the real thrill is developing new acts," says Jordan Harris, copresident of Virgin Records America, a label that's home to such stars as Paula Abdul and Keith Richards. Read "thrill" here as money. There's a lot of risk in the huge superstar deals and only thin profits for entrepreneurs. "The margins on superstars are comparatively thin," explains Harris.

Here's why baby acts are such a great deal—for the record companies. A new act typically signs a contract for five to eight albums. The royalty rate per album is usually 11% or 12% of retail sales, compared with 25% or so paid to groups like Aerosmith. A good contract for a new act would provide for escalations in the royalty as the album sells more copies, but new acts aren't often in a position to demand huge escalations.

Thus, for all but the established name acts, the entrepreneur, the impresario, is in the driver's seat. The money he advances to the performers to record and produce an album is not a pure expenditure on his part. If the record sells fairly well, the impresario gets his advance back before the performers get a dime. Movie studios should have it so good. It's as if a movie studio could stipulate that the stars and directors of its lesser films wouldn't get paid until the studio had gotten back every cent of its outlay.

A&M Records' group Extreme, backstage on tour

Despite album sales in the millions, the band is still extremely poor.

"I don't know of any other business where the cost of creating has to be recouped by the creator," says Leonard Marks, a New York City-based entertainment litigator. Marks isn't exactly complaining: He won a reported $80 million settlement largely in payment of back royalties from Capitol-EMI for his client the Beatles. His point, nevertheless, is quite valid.

Show business never was easy for the aspiring talent, but the record industry in the 1990s has carried the exploitation to absurdity; there is no minimum wage in the pop music business.

That's why Virgin's Harris says the development of new acts can be thrilling. With a little risk, the record impresario stands to make a bundle.

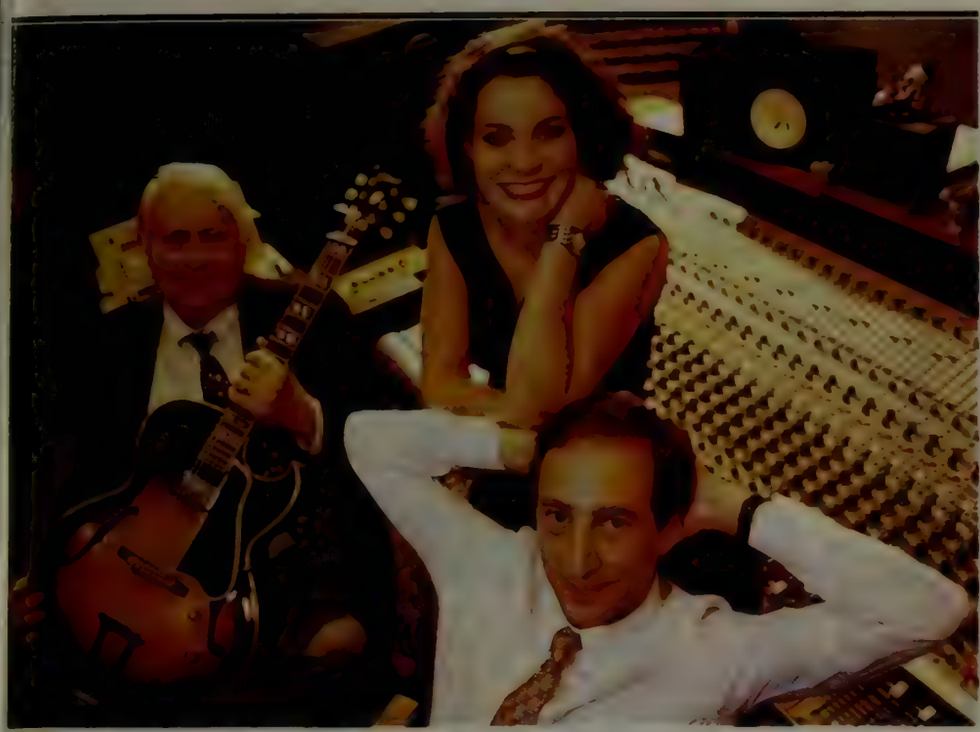
But doesn't the lucky performer make a bundle, too? Yes and no. The percentage of retail sales the act receives as a royalty isn't as much as it sounds. The standard record industry contract is loaded with clauses that reduce the numbers on which royalties are calculated. One of the biggest reductions comes in the form of packaging deductions. Record companies feel the costs for the plastic clamshell cases that house compact discs and audiocassettes should be covered by the performer. So in the case of CDs, record companies routinely deduct as much as 25% from the retail price to cover packaging costs—before allowing royalties to kick in. "It's total fiction," claims Kenneth Anderson, a New York-based attorney who represents rap stars D.J. Jazzy Jeff and the Fresh Prince, among other acts. "There is no actual cost reflected by these deductions."

According to Anderson, when CDs came to market eight years ago, provisions were added to contracts that set the royalties on higher-priced CDs at the lower retail price of vinyl albums, because the manufacturing costs of the CDs were higher. Those costs are dramatically lower today, but the deductions are still there.

Then there is the so-called free goods deduction. Talent typically receives royalties on just 85% of all records sold. What happens to the other 15%? Record companies say these records are given away as promotional items. Record companies also hold back royalties on 30% to 50% of sales as reserves against returned albums. These reserved royalties can be held as long as two years, interest free. Much of the math came about in the days of broken records. It's ridiculous in the age of compact discs.

Producers who help put the album together usually get a piece of the action, too. As the album sells, their share also balloons. The act is also responsible for touring costs and independent promotion, though these are really just marketing expenses. If there are earnings, the act must then shell out as much as 20% to its manager. Add to that six-figure amounts for legal fees and publicists.

There are plenty of other ways for a



Justice Records' Randall Jamail, front, with acts Herb Ellis and Wendi Slaton
He threw the standard record industry contract out the window.

record company to reduce the amount actually paid to the performers. Royalties paid on records sold internationally, for example, are often 50% of normal rates—although it does not cost a multinational company dramatically more to sell records overseas.

Music publishing? Musicians typically give up 50% ownership of the songs they write to publishing houses, many of which are owned by record companies. The songwriters also usually agree to be paid their publishing royalty on just 75% of the congressionally mandated minimum rate of 5.7 cents per song.

All these holdbacks and cozy deals add up to very big money for the record impresarios. Record mogul David Geffen's first million was made by selling the rights to Laura Nyro's songs to CBS Records for $4 million. As part of his deal with Nyro, Geffen got half of that.

Performers generally agree to not be paid on more than ten songs per album, although compact discs today often have more. "That's record business accounting," Koppelman says, scarcely disguising his glee.

So heavily is the accounting stacked in favor of the impresario, that a record or an album can make a great deal of money for him while producing little more than lunch money for the act. Suppose an album from a relatively new act costs $500,000 to produce and market, and sells 600,000 copies—a nice sale for a relatively new act. The record company would probably reap around $1.8 million as the reward for its risk and effort. The act might, if lucky, gross $600,000. But from its share would come, first, $500,000 to recoup the costs. From the remainder the act would have to pay its managers and its expenses. Thus, a nice success might yield less than $50,000 after taxes to be divided among the performers.

The public hears from the slavish entertainment media about the lavish lifestyles of the famous pop musicians. It knows little of the desperate struggle most entertainers face.

Arma Andon Jr. is the manager for a relatively new group called Extreme. The band's second album, *Pornograffitti,* has sold over 2.5 million copies worldwide—a smashing success. That's enough to recoup production costs, but because the band's first album didn't recoup, the losses were carried against the earnings of the group's second album. "Let me put it this way," says Andon matter-of-factly. "We've sold over 2.5 million records and we still haven't made a nickel." For A&M Records, it's meant $15 million in sales.

For years the Rolling Stones recorded on London Records. Their royalty rate then pales compared with the $1.75 or so per album they get nowadays. "We had a terrible deal, everyone had terrible deals," says Rolling Stones singer Mick Jagger. "Black artists got nothing, literally, and white artists got a derisory royalty which was then ripped off by their management." According to Jagger, if a record earned a dollar, the Stones were lucky to get 2½ cents to a nickel.

In this lopsided situation, some clever younger impresarios see opportunity. One such is Randall Jamail, the 35-year-old son of the man who took Texaco for $3 billion on behalf of Pennzoil. That nice little piece of litigation put Joseph Jamail on The Forbes Four Hundred and helped give his son, Randall, a certain amount of independence.

Randall Jamail last year started a Houston-based jazz and blues label, Justice Records. Jamail threw the standard record industry contract out the window. "In light of other sorts of agreements, they look usurious," says Jamail. "The companies know how much it costs to make an album. Why should successful acts subsidize the mistakes of the record companies?"

At Justice the performers' advance is first recouped from the entire wholesale price, $7 or so an album. The record company doesn't begin to make money until the performer does. "I decided that if I couldn't operate that way I'd go out and sell bananas," says Jamail. Aside from the fact that his dad is a centimillionaire, young Jamail won't have to sell bananas if his outfit is even reasonably successful. There's that much money in the business.

Of course, the record companies argue that they need rich deals because most albums lose money. "There's too much product," says Koppelman. He points out that 85% or 90% of the acts on a record label lose money for the company; that is, even though the talent gets nothing, the record company still loses money.

Time was when this was less of a problem for the record companies and impresarios. They would make so much from their big-name performers that they could easily afford to gamble and lose on lesser names. This

David Stock/Onyx

LEFT: Mogul David Geffen
RIGHT: Singer Axl Rose
Nowadays performers battle record executives in print and on the stage.

is changing.

It is changing in ways that anyone familiar with the movie business will understand. It took years for Hollywood stars to realize that, as intoxicating as they sounded, net points were for suckers; the smart actor would demand a percentage of the gross, not the net. Arnold Schwarzenegger, for example, gets a percentage based on the first dollar brought in to the studio. The similarity of the situations has not been lost on the big-name pop musicians and their agents.

Established stars increasingly are looking to renegotiate, or break altogether from, their existing deals. Geffen Records has taken the most heat lately, largely because of company head David Geffen's unwillingness to renegotiate. In just the last few months, three of Geffen's biggest acts showed their displeasure with the label. Aerosmith has signed with Sony Music Entertainment's Columbia Records, singer Don Henley has said he will leave the label, and Guns N' Roses lead singer, Axl Rose, personally denounced Geffen onstage at a recent concert.

"These are bad times in the record business, buddy," bemoans Irving Azoff, owner of Giant Records. "It's definitely tipped on the side of talent." He means the big talent, of course. The little talent and the rising talent still starve.

Just this year alone, two of pop music's biggest stars, Michael Jackson and his sister Janet Jackson, each signed separate deals that made them two of music's highest-compensated performers.

Michael's six-album deal with Sony gives the entertainer his own record label, a production deal with Sony's Columbia Pictures division and advances of $5 million for each of the six albums he'll record. He gets paid even if an album bombs. Royalty rate? Over $2 per album. Jackson's last album, *Bad,* sold over 24 million copies.

Sister Janet's deal with Virgin Records calls for the singer to deliver just three albums, unusually short terms for an industry that tries to lock in a performer for the long haul. It's estimated Jackson got $17.5 million just for signing the contract. An equally high royalty rate and advances of about $5 million per album makes her deal one of rock's richest.

Last month Sony Music signed veteran rock group Aerosmith to a four-album deal worth $40 million to $50 million. Aerosmith got a signing bonus of some $15 million and will get at least a $6 million advance on each album. The deal carries a 25% royalty rate, said to be among the highest in the industry.

Meanwhile, Time Warner has Madonna demanding a deal similar to Michael Jackson's, and one of rock music's oldest acts, the Rolling Stones, is said to be on the verge of signing a new deal with PolyGram. One can only guess what kind of monies will be paid for them. "These are such astronomical sums, the royalty doesn't even matter," Azoff says.

Getting their investment back could prove to be a tough proposition for the record companies. With a $17.5 million signing bonus and a $5 million advance for the first album, Janet Jackson will have to sell over 7 million copies for Virgin Records to break even. Her last album has sold 8 million copies.

A situation is developing in which the record companies bear all the risks and merely share in the rewards.

In a sense, that's the way it should be: Singers get paid for singing, capitalists get paid for taking risks.

This could, in a way, make things a bit—a bit—easier for aspiring talent. Unable to make much money on the big names, the promoters may be more willing to take risks on relative unknowns. That's what Charles Koppelman is doing. But this doesn't necessarily mean the terms will improve for the performers.

Says lawyer Marks, the man who won the big bucks for the Beatles: "Their desire to be famous and the competition are so fierce that they will sign whatever is put in front of them."

As long as teenagers have bulging pockets and a willingness to pay outrageous prices for an ephemeral product, there will be big money in the recorded music business. But the Geffens, Time Warners and Koppelmans will have to take more risk for their profits than in the past. The top performers and their handlers will get richer and richer; it's only a matter of time before they begin to crowd oilmen and Wall Streeters off The Forbes Four Hundred. And the great majority of aspiring talent? Things aren't likely to get much better for them.

Want to make the Forbes Top 40? Beware. Success is brief and fortune's fleeting.

It's slippery at the top

RAP MUSIC proved the road to riches for entertainers this year, placing two new names on the Forbes Top 40. One of them is M.C. Hammer, né Kirk Burrell. Hammer's high-energy dance steps and bouncy secondhand grooves helped move more than 15 million copies of his debut album, *Please Hammer Don't Hurt 'Em.* White rapper Robert Van Winkle, a.k.a. Vanilla Ice, cracks the list in the 40th spot. His album *To the Extreme* sold over 12 million copies.

Also new to the list: Xuxa, Brazil's answer to Madonna. Her empire includes film production, an array of merchandise, a travel agency and comic books. But most of her money comes from record sales and her daily TV show. Roll over, Xavier Cugat.

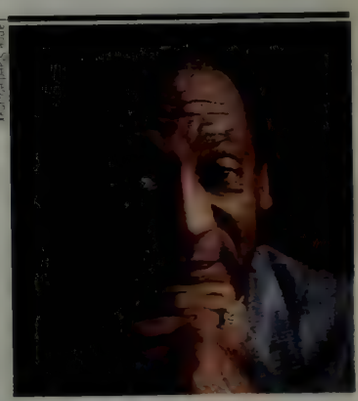
Hollywood dreamboat Kevin Costner jumped aboard with panache. He directed and starred in the Western epic *Dances With Wolves,* which swept the Oscars and grossed over $400 million. Costner's share of the take is some $40 million, but *Dances* was distributed by the nearly bankrupt Orion Pictures. Costner makes our list because he earned the money; getting paid is his problem.

Teen-angst auteur John Hughes *(The Breakfast Club)* wrote and produced *Home Alone,* which grossed $500 million. Welcome also military-techno-thriller writer Tom Clancy and cartoonist Matt Groening, creator of *The Simpsons.*

Atop the list, knocking off perennial leaders Bill Cosby and Michael Jackson, are teenybop heartthrobs New Kids on the Block. In 1990 they sold nearly $75 million in concert tickets and over $1 billion in merchandise. Two-year take: $115 million.

This year the Top 40 bids farewell to Garfield creator Jim Davis and warhorse rock acts Pink Floyd, U2 and the Who. And pop star George Michael, who complained about the rigors of stardom, found his public responding in kind: His new album didn't sell enough to keep Michael on the chart. He'll find it's lonely at the bottom, too. –P.N. ■

Lynn Goldsmith/Sygma



1 New Kids On The Block
pop music group
1991 $ 54,000,000
1990 $ 61,000,000
Total $115,000,000

2 William H. Cosby Jr.
actor, comedian, author
1991 $ 58,000,000
1990 $ 55,000,000
Total $113,000,000

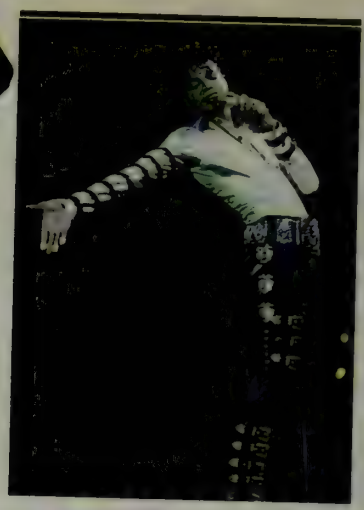
Larry Busacca/Retna

3 Oprah Winfrey
TV host, producer
1991 $ 42,000,000
1990 $ 38,000,000
Total $ 80,000,000

Sources: The Licensing Letter; Video Marketing News; Pollstar; Amusement Business; entertainment executives, lawyers, agents and managers.

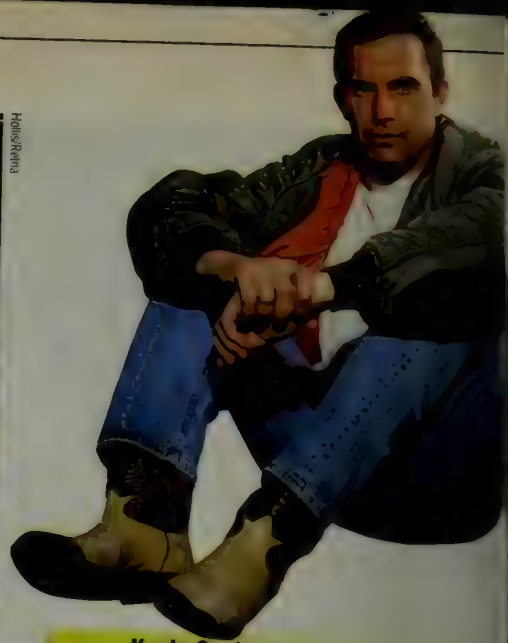
John Rocca/LGI

Madonna
pop singer, actress
1991 $ 24,000,000
1990 $ 39,000,000
Total $ 63,000,000



Hollis/Retna

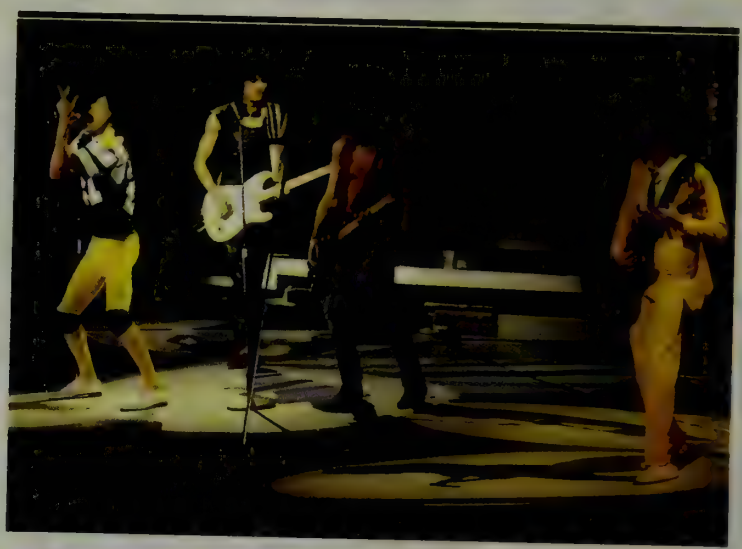
Michael Jackson
pop singer
1991 $ 25,000,000
1990 $ 35,000,000
Total $ 60,000,000



Kevin Costner
movie actor, director
1991 $ 50,000,000
1990 $ 9,000,000
Total $ 59,000,000

Rex Features

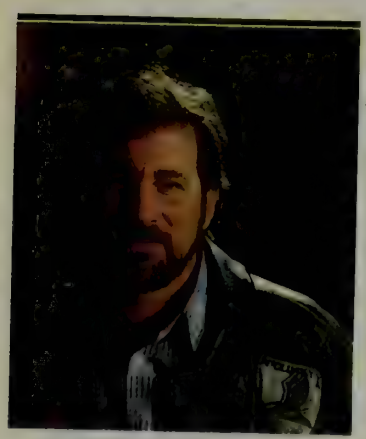
Johnny Carson
TV host, producer
1991 $ 30,000,000
1990 $ 25,000,000
Total $ 55,000,000



Gary Gershoff/Retna

The Rolling Stones
rock group
1991 $ 11,000,000
1990 $ 44,000,000
Total $ 55,000,000

Charles M. Schulz
cartoonist
1991 $ 25,000,000
1990 $ 26,000,000
Total $ 51,000,000



Mark Seliger/Onyx

Steven Spielberg
movie director, producer
1991 $ 27,000,000
1990 $ 23,000,000
Total $ 50,000,000

Paul McCartney
pop singer, composer
1991 $ 15,000,000
1990 $ 34,000,000
Total $ 49,000,000

Julio Iglesias
pop singer
1991 $ 23,000,000
1990 $ 22,000,000
Total $ 45,000,000

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13 Janet Jackson
pop singer
1991 $ 18,000,000
1990 $ 25,000,000
Total $ 43,000,000

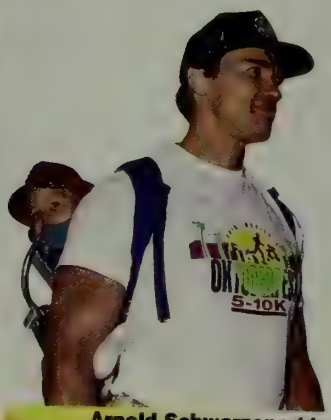
Steve Granitz/Retna

14 Bruce Willis
movie actor
1991 $ 15,000,000
1990 $ 28,000,000
Total $ 43,000,000

15 Eddie Murphy
movie actor, comedian
1991 $ 16,000,000
1990 $ 26,000,000
Total $ 42,000,000

Steve Granitz/Retna

16 Tom Cruise
movie actor
1991 $ 17,000,000
1990 $ 19,000,000
Total $ 36,000,000



Phil Roach/Photoreporters

17 Arnold Schwarzenegger
movie actor
1991 $ 15,000,000
1990 $ 20,000,000
Total $ 35,000,000

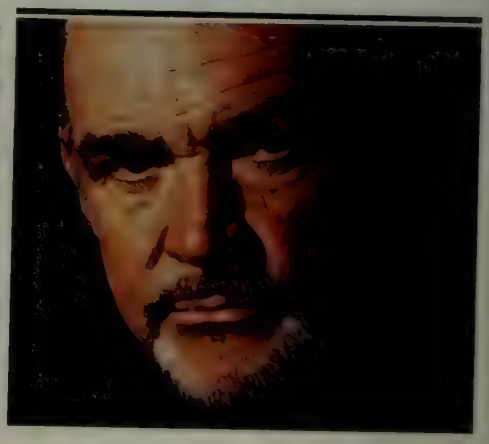
18 Aerosmith
rock group
1991 $ 12,000,000
1990 $ 22,000,000
Total $ 34,000,000

Frank W. Ockenfels 3/Outline

19 M. C. Hammer
rap singer
1991 $ 22,000,000
1990 $ 11,000,000
Total $ 33,000,000

Jay Blakesberg/Retna

20 The Grateful Dead
rock group
1991 $ 16,000,000
1990 $ 17,000,000
Total $ 33,000,000



21 Sean Connery
movie actor
1991 $ 5,000,000
1990 $ 27,000,000
Total $ 32,000,000

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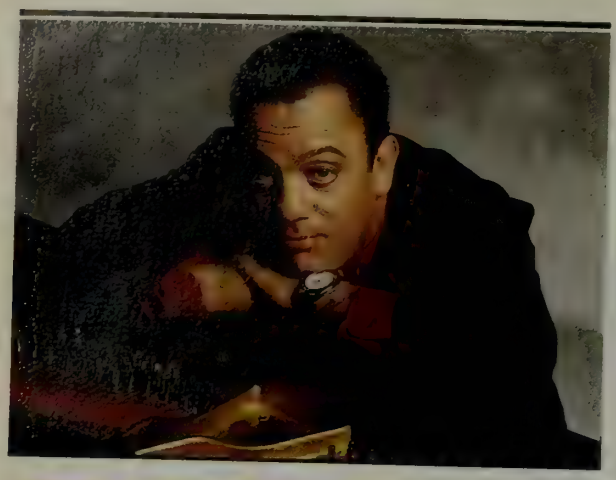


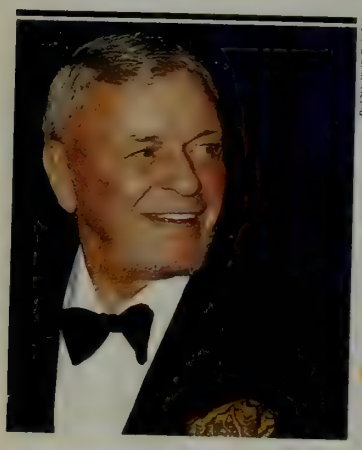
Timothy White/Onyx

22 Billy Joel
pop singer
1991 $ 5,000,000
1990 $ 26,000,000
Total $ 31,000,000

Barry S. Salinger/Onyx

23 Jack Nicholson
movie actor
1991 $ 14,000,000
1990 $ 16,000,000
Total $ 30,000,000

24 John Hughes
movie producer, director
1991 $ 20,000,000
1990 $ 8,000,000
Total $ 28,000,000



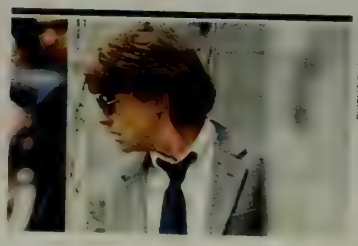
Steve Granitz/Retna

25 Frank Sinatra
singer
1991 $ 14,000,000
1990 $ 13,000,000
Total $ 27,000,000

Andrew Southam/Onyx

26 Michael Douglas
movie actor, producer
1991 $ 12,000,000
1990 $ 15,000,000
Total $ 27,000,000

28 Guns N' Roses
rock group
1991 $ 21,000,000
1990 $ 4,000,000
Total $ 25,000,000



Eddie Malluk/Retna

27 Michael J. Fox
movie actor
1991 $ 3,000,000
1990 $ 23,000,000
Total $ 26,000,000

Lee Crum/Outline

29 Stephen King
novelist, screenwriter
1991 $ 13,000,000
1990 $ 12,000,000
Total $ 25,000,000

30 Siegfried & Roy
illusionists
1991 $ 15,000,000
1990 $ 10,000,000
Total $ 25,000,000

31 Prince
pop singer
1991 $ 10,000,000
1990 $ 15,000,000
Total $ 25,000,000

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John Sheehan/Onyx

32 Andrew Lloyd Webber
composer, producer
1991 $ 12,000,000
1990 $ 12,000,000
Total $ 24,000,000

New Precedent/Gallery

33 Paula Abdul
pop singer, dancer
1991 $ 10,000,000
1990 $ 14,000,000
Total $ 24,000,000

Image Zabel/Onyx

34 Sylvester Stallone
movie actor
1991 $ 10,000,000
1990 $ 13,000,000
Total $ 23,000,000

Timothy White/Onyx

35 Arsenio Hall
TV host, comedian
1991 $ 12,000,000
1990 $ 11,000,000
Total $ 23,000,000

George Lepp/Onyx

36 Tom Clancy
novelist
1991 $ 15,000,000
1990 $ 5,000,000
Total $ 20,000,000

Luis Dias/Sygma Images

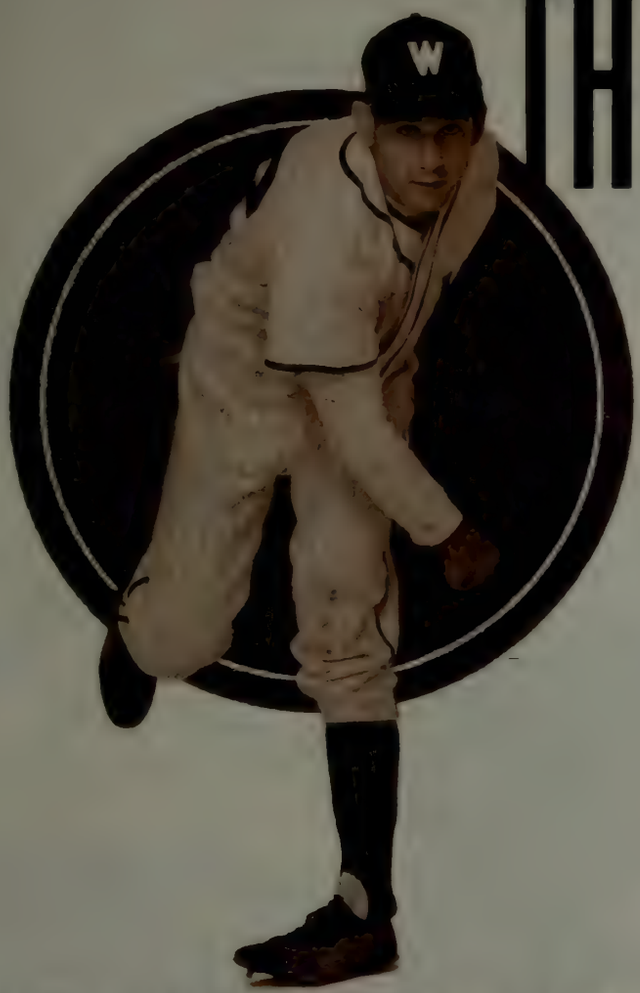
37 Xuxa
pop singer, TV host
1991 $ 10,000,000
1990 $ 9,000,000
Total $ 19,000,000

Dix Pete St. John/Retna

38 Mel Gibson
movie actor
1991 $ 10,000,000
1990 $ 9,000,000
Total $ 19,000,000

39 Matt Groening
cartoonist
1991 $ 8,000,000
1990 $ 10,000,000
Total $ 18,000,000

40 Vanilla Ice
rap singer
1991 $ 13,000,000
1990 $ 5,000,000
Total $ 18,000,000



THE LAST TIME MY FIRM SWITCHED INSURANCE COMPANIES

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The casino business is no longer just about slots, lavish floor shows and bargain-priced prime rib dinners. Think of it now as Disneyland with gambling.

Who's got the royal white tigers?

By Howard Rudnitsky

ON THE DAY Boris Yeltsin quelled the coup, U.S. stock markets jumped 3%. Guess which industry group rallied the most? Not oilfield services, not grain companies. Casino stocks.

That's right. Some gambling stocks, Caesars World and Aztar, for example, rose 10% that day. Many of the stocks are now around their long-time highs, and the stronger stocks, like Hilton and Circus Circus, sell at premium price/earnings multiples—as high as 22. With the Soviet Union not staring at a bloodbath, people could start thinking again about fun things like traveling and gambling.

Mirage's white tigers
They help pack 'em in.

It may not be all that simple. Over the next several years problems that have nothing to do with Moscow will still loom for the gambling business. Last year 20 million visitors checked into Vegas' 74,000 hotel rooms, a handsome 10% gain over the year before. Gaming revenues, spurred by the opening of two monster new hotel/casinos, rose 14%, to around $3 billion.

However, 1991 will be less buoyant. The recession and the Gulf war will have cut revenue growth just about in half, the lowest gain since 1984. Good enough for most businesses, but maybe not enough for Las Vegas casinos.

The Excalibur
Its medieval theme seems to be a winner.

Las Vegas is showing signs that it is becoming overbuilt. Circus Circus opened the Excalibur last year with its medieval castle theme and 4,000 rooms. The Mirage Resort preceded it seven months earlier with its 3,000 rooms. Scheduled to open in late 1993 is MGM Grand's huge $900 million amusement park/hotel/casino with 5,000 rooms. Circus Circus will also open its third facility, adding 3,000 rooms.

With traffic growing more slowly than capacity, older downtown casinos like Lady Luck and Four Queens and even Stephen Wynn's Golden Nugget have been hurting, as are some casinos on the Las Vegas Strip such as the Riviera, Stardust and the Sands. Atlantic City casinos, like Merv Griffin's Resorts International and Donald Trump's Trump Castle and Taj Mahal, of course, fared much worse last year.

These problems have done little to slow the spread of legalized gambling facilities. Casino gambling is proliferating outside of Nevada and Atlantic City. Riverboats with gambling facilities will soon be cruising much of the Mississippi. As many as half a dozen states could have casinos operating on Indian reservations by the end of the year, thanks to recent favorable court rulings.

Says Paul Dworin, editor of *Gaming & Wagering Business Magazine*: "Within five years virtually everyone in America will be in a few hours' driving distance of a casino."

When a business grows more competitive, those that offer customers something extra are the ones that survive. That's what's happening in Las Vegas. So, despite the slowdown in growth and the new competition, some of the established casino operators continue to do fairly well—Caesars Palace and Circus Circus among the public companies, and also privately owned casinos like Imperial Palace, Gold Coast and Horseshoe.

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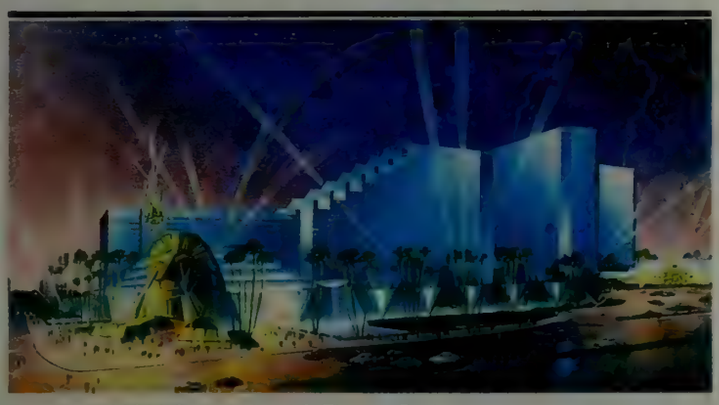
Hot dice

	Latest 12 months revenues ($mil)	EPS	P/E	Debt/ capital	Recent price	52-week high	52-week low
Aztar	$486.6	$0.17	43	59%	7⅜	7⅜	2⅜
Caesars World	908.1	2.09	14	59	30⅛	30⅜	10⅛
Circus Circus	755.9	2.00	18	68	36	41	17⅞
Hilton Hotels[1]	1,108.5	1.85	22	42	40⅝	49⅞	26⅝
Intl Game Tech[2]	227.3	0.80	31	26	25	29⅛	4½
Mirage Resorts	914.7	2.28	11	88	24⅛	31¼	12¾
Promus	1,005.5	1.20	20	72	23⅝	27¼	8⅞

[1]Figures include noncasino hotel properties. [2]International Game Technologies manufactures and operates electronic gaming systems. *Sources: Salomon Brothers; FORBES.*

Gambling stocks have roared back from their 1991 lows. Most sell at market premiums. With increasing gambling competition, will enthusiasm wane?

What the more successful casinos offer that the others lack is theater. Not just the old-fashioned singing, comedy and dancing girls theater, but pervasive theater. Surround the guests with white royal tigers, waterfalls, erupting volcanoes and medieval castles. Much of this is tacky, but it is meant to keep customers entertained even when they're walking through the lobby.



Proposed MGM Grand Hotel & Theme Park
Will it pull in family vacationers?

Steve Wynn, chairman of Mirage Resorts, puts it this way: "The old formulas don't work anymore. Customers won't come just to see a Sinatra. You've got to give them an entire resort experience with spectacular scenery."

So Siegfried & Roy, with their lasers, tigers and magic tricks, pack the customers in at the Mirage. Wynn says he spent $24 million on Siegfried & Roy's theater alone. Never mind. It fills twice nightly at $67 a head, and all those folks have to pass the gambling tables on their way out.

How do you compete when you have little more than a plain hotel room, a bar and gambling tables? It's tough. Nevada Gaming Board data show that 42% of Las Vegas' 62 casinos were unprofitable last year. Casino bond issues totaling $612 million are in default (Bally's and Goldriver Finance), with a number of others on shaky ground.

Almost half of downtown Vegas' 21 casinos lost money in 1990. Even profitable downtown casinos, including the Golden Nugget and the Horseshoe, reported $31 million in pretax profits in 1990, less than a third of what they earned in 1988.

The rest of this year and next look better, at least so far as Las Vegas is concerned. Little new capacity is coming in and the recession appears to be ending. But come late 1993—just two years from now—a spurt of new capacity is coming. Says Oppenheimer & Co.'s gaming analyst Steven Eisenberg: "When Circus Circus and MGM Grand open their new megafacilities with 8,000 rooms, the pressure on profit margins will be on again."

While those two new facilities are expected to get off to a good start, the squeeze is likely to come in the "price-sensitive" half of the market, the slot-machine-oriented, $35-a-night room crowd. That's where most of the growth will have to come from if all those rooms and casinos are to be kept filled. Steve Wynn contends Kirk Kerkorian's proposed $900 million MGM Grand casino/theme park isn't a threat "but an opportunity that will help develop a whole new market for Las Vegas." Why? Because, he argues optimistically, it will pull in family vacationers by the millions, whose patronage will be enjoyed by the "themed" properties like the Mirage and Circus Circus.

But the plain-vanilla casinos have little to offer the theme park masses. By contrast, casino operator Caesars World caters to high rollers. In November its 25-year-old Caesars Palace hotel/casino with an opulent Roman motif will host the Mike Tyson-Evander Holyfield heavyweight championship fight. It's expected to bring in $100 million in gaming and other revenues, a record for a Las Vegas fight weekend. (That is, if rape charges against Tyson don't stick.)

For its value-added show business glitter, Caesars Palace can charge premium prices—$1,200 ringside seats, $60 show tickets and $2,000-a-night suites. Next spring Caesars will open a 90-store shopping "Forum," resplendent with names like Gucci and Louis Vuitton. Mirrors on the bedroom ceilings, Jacuzzi pools in the bedrooms, world championship boxing matches—and now high-priced recreational shopping. That's the kind of packaging a casino needs to prosper today.

Another potential winner in the high-roller market: Hilton, which has two hotels on the strip, Flamingo and the Las Vegas.

No, casino gambling hasn't lost its appeal. But there can be too much of a good thing. With casinos having to offer more and more fringe attractions to get the customers, there is little doubt that Las Vegas will face stiffer competition in the years ahead. Which raises a question for investors: Will even the best of these stocks be worth the premiums they currently command in the market?

A Report to Management

Workers' Compensation On The Critical List

Saving a System in Crisis

by Dennis Pillsbury

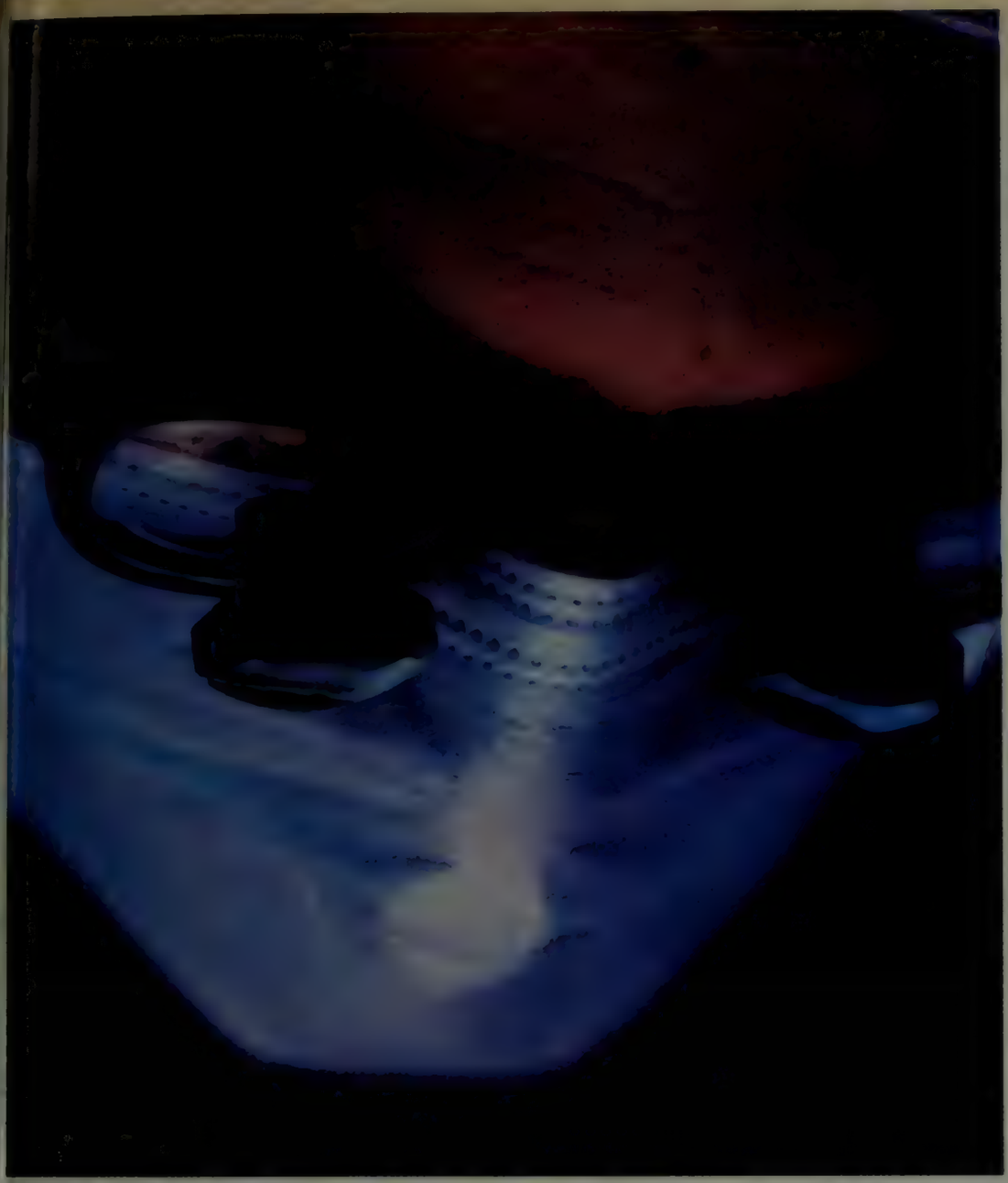
The workers' compensation system is in critical condition and sinking fast. In some states, a number of insurance companies are considering "pulling the plug" and letting the "patient" die a peaceful death rather than continue with life-support systems.

Unabated cost escalation has created an untenable situation for insurance companies and self-insurers alike. The percentage of payroll devoted to workers' compensation has doubled during the last decade and shows no sign of abating. Today, the annual average cost per employee for workers' compensation coverage is approximately $500, according to data compiled by the National Council on Compensation Insurance (NCCI). This compares with an average cost of $93 per employee in 1972.

Trends indicate that unless significant reform is enacted to contain costs, double-digit cost escalation will continue. During the '80s, both medical and indemnity costs rose at double-digit rates, a sharp contrast to the modest annual rise of approximately 4% in the overall Consumer Price Index. Here are some revealing statistics:

- Average medical costs tripled during the decade, rising at an average annual rate of 13%.
- Indemnity costs experienced an average annual increase of 10%, despite the fact that the wage levels on which indemnity payments are based only rose at an annual level of approximately 5%.
- Lost workdays per 100 employees rose 24% from 1984 to reach 78.7 in 1989. Improvements at the beginning of the decade had this number down to 58.7 in 1982.

For the last eight years, insurance companies have experienced operating losses in workers' compensation. Combined ratios (the ratio of losses and expenses to premiums) have exceeded 115%, and operating ratios (which factor in investment gains) have been in the 105% range. This has translated into operating losses of $1.7 billion in 1987, $1.8 billion in 1988, $2 billion in 1989 and $2.2 billion in 1990. No industry can continue to sustain losses of this magnitude. As one insurance executive noted, the system is slowly "bleeding us to death." The situation has become so ridiculous that many insurance company strategies now involve getting out of certain markets faster than the competition.



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A Report to Management

Saving a System in Crisis

Unsafe Risks Get a "Free Ride"

One result of this exodus from certain markets is growth in the residual market. This market is handled by private insurers, which set up pooling mechanisms to handle risks that are not covered in the voluntary marketplace. Residual markets are intended to handle difficult risks. However, when the voluntary market shrinks, more and more "clean" risks are forced into the pool. The result has been that the residual market has become the largest writer of workers' compensation policies in the nation. NCCI estimates that the residual market now handles nearly one-quarter of the workers' compensation business written in the U.S. In 1985, by contrast, the residual market handled less than 10% of this business.

There are two fundamental problems with the continuing growth in the residual market: First, because premiums for this market are kept artificially low by state regulators, the premiums must be subsidized by the voluntary market. When the residual market is relatively small, that subsidy does not represent a significant portion of voluntary premiums. The burgeoning of this market has produced a situation where, on the average, a 15% charge must be added to voluntary market premiums to support residual market losses.

Second, there are no financial incentives built into the residual market to prompt an employer to operate in a safe manner. In effect, the good risks are subsidizing unsafe business operations. As Gary Countryman, chairman, president and chief executive officer of Liberty Mutual Insurance Companies, points out, "The unsafe places get a free ride. The incentives are all wrong. The costs of operating unsafely are masked, while companies that operate safely are paying much more than they should."

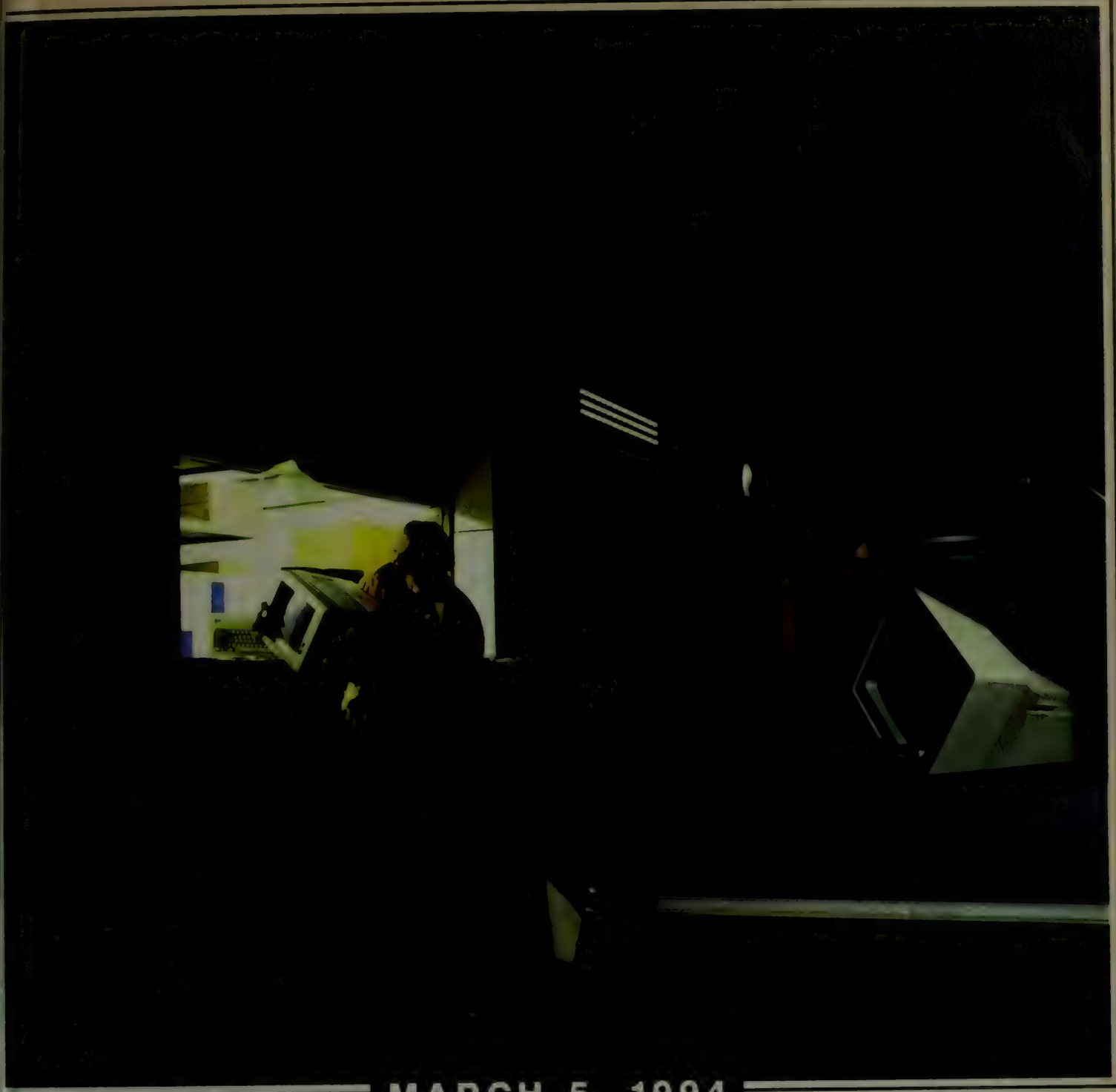
Unless runaway costs are checked, the workers' compensation system could collapse in some states.

The situation is serious. Unless runaway costs are checked, the workers' compensation system could collapse in some states. There is a glimmer of hope, however, according to William Hager, president of NCCI, the largest workers' compensation rating organization. "Workers' compensation has moved to the front burner in many states, and legislatures are taking action to reform the system." In some cases, these reform efforts are being spearheaded by coalitions that include labor and management along with the insurance industry, as are efforts to improve safety in the workplace. The fact that these traditional adversaries have set aside their differences in order to work together to save the workers' compensation system is an extremely positive development. Dick Lepinski, assistant vice president-workers' compensation for Wausau Insurance Companies, notes: "Labor and management are the key. They are the primary owners of the system."

The question now is, where do we go from here?

"The area where all stakeholders have the greatest leverage for controlling and stabilizing costs," Liberty Mutual's Countryman states, "is workplace safety. The business community, insurance industry, OSHA and labor must work together to achieve an improvement in safety on a grand scale. There already has been a tremendous change in attitude concerning workplace safety that has business and labor and the insurance industry working together to achieve real reductions in accidents."

These efforts can have a very positive impact on overall workplace safety as well as a concomitant positive effect on a company's bottom line. As to whether or not accident prevention works, Du Pont Co. has enjoyed a lost workday incidence rate of only .04 in 1990. This figure is dramatically lower than the national average of 78.7. Du Pont estimates its savings at more than $1 billion.



MARCH 5, 1994

A Report to Management

Saving a System in Crisis

Excessive Litigation Undermines the System

Almost as important as prevention is the handling of injured workers after an accident occurs. Actions taken at that point can have a significant impact on the ultimate cost of that accident. The manager or shop foreman at the scene of the accident should immediately step in to allay the employee's fears and uncertainties. He or she needs to be in contact with the employee after the accident, stressing that workers' compensation will take care of medical bills and lost wages, and that the company really wants the employee back at work.

At the same time, the insurance company needs to be notified immediately so that the claim can be processed as rapidly as possible and indemnity payments, if those are involved, can start quickly.

Insurance companies are working hard to improve the timeliness both of initial contact with the claimant and the initiation of payment, recognizing that delays can result in frustration and anxiety and increase the chance that an injured employee might turn to an attorney.

This does not mean that quick intervention alone will eliminate attorney involvement in the workers' compensation system. "Entirely too much of the expense dollar is being taken up with lawyers," says Klaus Dorfi, executive vice president of Atlantic Mutual Companies. The increasing attorney involvement in the workers' compensation system has been cited as one of the reasons that indemnity costs have risen at twice the rate of wages. In some states, attorney representation has become the norm. In California, for example, litigation costs accounted for more than $1 billion out of $6 billion in total workers' compensation costs in 1988.

"The workers' compensation system is supposed to be a no-fault system, but has emerged as part of the liability system," Dorfi adds. One result of the fact that the "system has become far too adversarial," he says, is that "claimants are not compensated equally." Claimants with minor injuries may receive far more than they should, while the seriously injured person may be undercompensated. He says that what is needed are "strong administrative agencies at the state level."

Lee Weinberger, president and chief executive officer of Wausau Insurance Companies, points out that the presence of a strong agency in the company's home state of Wisconsin "has gone a long way to maintaining stability. The department is very active. Information is disseminated to every injured employee describing the system and delineating the claimant's responsibility. Because of this, expectations are more

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Rodger S. Lawson,
Executive Vice President

As the American work force moves into the 1990s, so too must the workers' compensation system that protects it. For much of its 80 years of existence, the system has had a successful track record for providing indemnity and medical benefits to those injured on the job. However, adjustments are necessary to meet the needs of the nation's changing work force.

The Alliance of American Insurers believes that balance must be restored to the workers' compensation system. The goal is to develop a system that delivers adequate benefits to injured workers as quickly as possible with the least transaction cost. Any changes made to the system should be based on its fundamental concepts: Workers' compensation is to be the employee's exclusive remedy against an employer for work-related injuries and diseases; and it should provide employees with prompt payment of benefits.

In order to improve the system, all of the stakeholders at both the state and national levels must work together to develop an agenda for reform that encompasses as many of the common goals and objectives as possible. We must utilize existing forums for communication and create new ones, making every effort to find this common ground. Such cooperation, translated into political effectiveness, will allow the system to meet the challenges of a 1990s work force.

Working together means developing a consensus, in recognition that each party has different views of the system's priorities. Worker issues, such as benefit levels and prompt benefit delivery, must be balanced with employer concerns regarding inordinate cost escalation and instability, which characterize the system. Similarly, these concerns cannot be dealt with without recognizing that insurers are faced with statutory and administrative restraints that limit their ability to control costs in the current system and to obtain adequate revenues to cover the risk they bear in some states. All three are concerned with workplace safety.

But these, as well as other stakeholders, must rise above the pressures of individual special interests and move toward greater system balance. Only then will the system fulfill the variety of needs for which it was created.

MARCH 5, 1994

WE CAN CHANGE THE FUTURE.

At this moment there could be a burglary in your future. But that can change. You can stop that break-in now. Before it ever happens.

As a property and casualty insurer, we know burglars are especially enamored of electronics plants. We also know the steps you can take to help make your premises less attractive to them. You have to be committed to those steps. But so does everyone else we group you with—electronics people like you who share the same kinds of risks. And who will also share the same lowered premiums and the possibility of dividends that come with diligent loss control. It's that way for every industry we insure.

Call your agent or broker about us. And make sure the bad guys don't have a future with your company.

Atlantic Mutual, 45 Wall Street, New York, NY 10005

AtlanticMutual

IT PAYS TO BE CAREFUL.

These Days When A Worker Has An Accident, Eve

The Workers Compensation System was designed to help injured workers get well, and return to work. In most states, it does. In other states, the problems aren't simply big. They're enormous.

And beginning to spread into other states. Right down the line, everybody's starting to feel the effects—from the workers, to their families, to the employers, to the insurers.

The System

Over 75 years ago, when it was created to protect workers from on-the-job injuries, Workers Compensation was based on some well-intentioned and well-received ideas:

To prevent work-related accidents from ever happening.

To give prompt, quality medical attention and equally prompt income benefits.

To rehabilitate injured workers and help them get back to work.

To offer cost stability to the employer.

And ultimately, to keep the entire workp productive—the less down-time, the more ti you have to be competitive, and stay competi

The Obstacles

It bears repeating: There are problems. B problems, in many states, that need fixing. W also need to strengthen the system so that the problems don't spread to other states.

Problems like unnecessary, time-consum litigation. Soaring claims costs. Underfunded, understaffed state-administered agencies. An on a national level, runaway medical costs.

Fact is, the economies of entire states are

© Liberty Mutual Insurance Group/Boston, 1990

ody Gets Hurt.

ting—partly because businesses won't relo- in places where Workers Compensation is isarray.

For some states, the situation is so critical, urers have stopped writing Workers Compen- on Insurance altogether—premiums won't n cover losses and expenses.

The Way To Help

What can *you* possibly do to help? You'd be prised. To help restore and strengthen the tem in your state, you can take two courses of ion.

First: Be aware. Find out what's happening our state, how you're affected, and what you do to help. Talk to your insurance company usiness trade association.

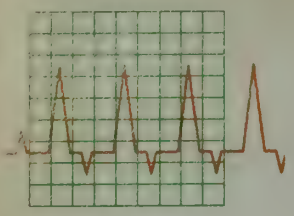
Or two: Share your views by writing to Gary Countryman, President and CEO of Liberty Mutual, 175 Berkeley Street, Boston, MA 02117. We'll help you get in touch with people in your state who can help.

When strong and fit, the Workers Compensation System works hard, and works well. Everyone it touches, it benefits—especially the injured worker.

Which is why, considering all it stands for, we should do everything possible to keep it standing.

LIBERTY MUTUAL.

Help Strengthen Workers Compensation.



A Report to Management

Saving a System in Crisis

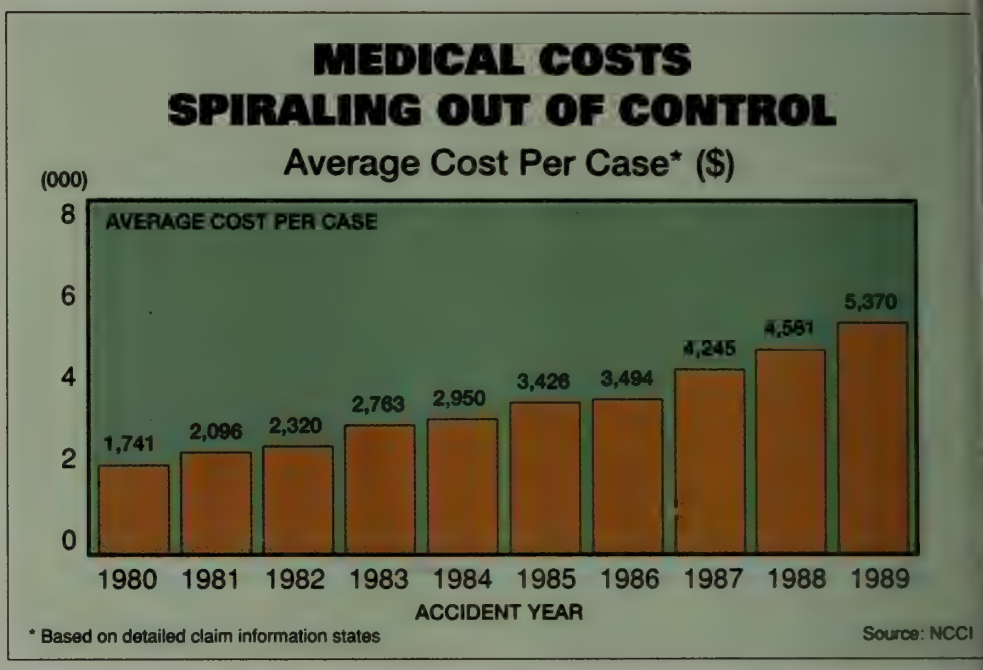
realistic and very few workers turn to attorneys for help. If there are disputes, the agency resolves them through arbitration." He adds, "At the same time, the state agency monitors the timeliness of payments to claimants to make certain that insurance companies are living up to their promises."

Weinberger goes on to explain that an efficient workers' compensation system can have a positive impact on a business's decision to locate in a state. "Wisconsin has been able to attract jobs when other states have lost them. Part of the reason was the positive workers' compensation environment."

The Last Blank Check for Health Care

The cost of medical care is another area where much needs to be done. Unfortunately, much of what is occurring in the health care area stretches far beyond the purview of the workers' compensation system. However, the nature of the system itself has made it more susceptible to medical cost inflation than other third-party providers. In fact, the cost of medical care in the workers' compensation system has risen 1.5 times faster than in the rest of the economy. That's because workers' compensation has no deductibles and pays unlimited medical expenses. At the same time, workers' compensation insurers have been unable in many states to use managed-care techniques, such as preferred provider organizations, utilization review and others. These are not intended to limit access to medical care, but to help eliminate abuses like "doctor shopping," where a claimant or his attorney looks for a doctor who will provide a diagnosis that best meets the needs of a court case rather than the medical needs of the claimant. Some observers have dubbed workers' compensation "the last blank check for medical care funding."

Internally, much can be done to cut health care costs, thanks to automation. "Automation has allowed us to more



NATIONAL ASSOCIATION OF MANUFACTURERS
Jerry J. Jasinowski
President

The concept behind the workers' compensation system is laudable—any worker who is injured on the job or becomes ill as a result of his/her job receives medical care and wage compensation. No one can argue with the necessity of such a system.

But the system has become a battleground between lawyers and health care companies who have lost sight of the program's fundamental purpose — to provide timely, quality care to employees who have been injured on the job.

One of the biggest problems facing the system is the spiraling cost of health care. Unlike traditional health benefits provided by employers, health care furnished under workers' compensation is at no cost to the worker, often for a lifetime.

In addition, though the system was designed to do away with potential lawsuits (all legitimate claims are covered), more and more cases are ending up in court. This does nothing to resolve the inherent problems of workers' compensation and, in fact, serves only to cause unnecessary delays and greatly increases the cost of the benefit.

The out-of-control costs of providing workers' compensation, when added to the other soaring expenses associated with corporate benefits packages, have significantly decreased our country's ability to compete internationally.

Finding solutions to these problems will help ensure a powerful place in the global marketplace for the U.S. Let's all work together to preserve a system that gives peace of mind to injured or sick workers.

Our Workers' Comp Record Is The Best In The Business.

We Don't Think That's Good Enough.

At Kemper, we believe the best way to reduce workers' comp costs is to help our customers prevent accidents and injuries. That's why we put so much emphasis on loss prevention and control.

But when accidents do occur, our record for keeping costs down is the best in the business.

Kemper is the only insurer that audits every workers' comp medical bill in every fee schedule state. In other major states, like Illinois and Pennsylvania, we use the same computerized audits to uncover improper charges.

And Kemper pioneered many cost containment practices—like Utilization Reviews, Preferred Provider Programs, and discount drug programs—practices that are now industry standards.

This year, we expect Kemper's workers' comp review programs will save policyholders $84 million. That's an average savings of 17 percent on each submitted claim. And that's on top of the savings generated by our loss control programs.

At the same time, we're also working for standardized forms and fee schedules in every state. Because our goal is to make cost containment pay off with quality care at affordable prices.

No other insurance company can beat Kemper's record in cost containment. So we're going to try to beat it ourselves.

For further information write: Kemper National, F3, One Kemper Drive, Long Grove, Illinois 60049.

Kemper National Insurance Companies

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Follow the leader.

A Report to Management

Saving a System in Crisis

carefully scrutinize medical claims," notes Keith Like, executive vice president-commercial lines of Kemper Insurance Companies. "We expect that we will pay nearly $100 million less than we are billed in medical costs alone by eliminating a significant amount of double billing and overcharges." He continues, "We don't approach health care providers in an adversarial manner when we find a problem, but work with them to eliminate these problems. Automation has allowed us to manage our results better."

An Agenda for Survival

Given the current state of the workers' compensation system, it is difficult to be sanguine about its future. The search for solutions involves a rededication of all stakeholders to accident prevention as well as legislative reform in some states. The fact that this has been accomplished in states where labor and business worked together provides real hope for the future.

"Some significant progress has been made," Like of Kemper says. "At least we've gotten to the point where the insurance industry is no longer viewed as wealthy and simply crying about a loss of profits. People recognize that there is a real problem."

Reforms have been successfully enacted in many states with positive results. For example, enactment of a reform package in Oregon that had the backing of labor and business resulted in a 12.2% reduction in workers' compensation rates. Reform in Texas, which has been one of the biggest problem states, already has resulted in significant reductions in loss ratios, which were down an estimated 20% in the first half of this year. Unfortunately, the reforms are being challenged, but the experience has shown what corrective legislation can accomplish. "Agents in Texas played a major role in helping forge a business and insurance industry coalition that lobbied for reform," notes A. William Bailey, chairman of Bailey Insurance & Financial Services of Waco, Texas, and president of the Independent Insurance Agents of America.

Bailey says that agents play an extremely important role in efforts to reform workers' compensation. "Coalitions of the stakeholders can cause change to take place. Our role, as independent agents, is to help forge these coalitions and support them with facts, ideas and experience. We know the business people very well. Most of them are our customers. They're experiencing problems with purchasing workers' compensation coverage and affording coverage when they can get it. We're there to explain why this is happening and show them what can be done to correct the situation."

In the year 2011, the workers' compensation system will celebrate its 100th anniversary. Actions taken today by the stakeholders in the system will determine what kind of anniversary that will be. ■

Well-known insurance journalist Dennis Pillsbury has written articles for *Forbes*, *Venture*, *Inc.*, *Business Week*, *the Journal of Commerce* and major industry publications. He is based in Morris Plains, NJ.

AFL-CIO
Thomas R. Donahue
Secretary-Treasurer

The AFL-CIO applauds the Alliance of American Insurers and the National Association of Manufacturers for their willingness to join in efforts to raise public awareness of the importance of an equitable and fair workers' compensation system.

For 80 years, workers' compensation has been based on the proposition that workers who are injured or ill because of circumstances arising from their work should receive medical treatment and wage replacement until they are able to return to their jobs. In return for providing this no-fault protection, employers would not be liable for common law tort remedies.

Today, the only thing that usually unites the parties to workers' compensation is their unhappiness with it.

Among workers who have paid the human cost of job injury or illness, the inadequate benefits in many jurisdictions and the lengthy delays in others have eroded the trust and confidence that this system needs. The AFL-CIO is convinced that the workers' compensation system can work, but it clearly needs reforms, such as:

- Healthier and safer workplaces through loss prevention and the elimination of work injuries and illnesses. Reform of the Occupational Safety and Health Act would be an important step in this direction.
- Equitable treatment of disabled workers through compliance with the recommendations of the 1972 National Commission on State Workmen's Compensation, as well as improvements in the coverage of occupational diseases.
- High-quality and appropriate medical care, including workers' choice of physician, paid for by the employer.
- Dignity and respect for injured and diseased workers, including measures to protect their privacy and the confidentiality of their records.
- Direct dialogue between business and labor. They have the greatest stake in this system, so they should have the most influence in determining its form and content.

The original purpose of workers' compensation remains fundamentally sound. The task of the trade union movement and the business community is to reform the system so it can fulfill that purpose.

WORKERS' COMPENSATION

In the "search for solutions"- your independent agent plays several major roles!

We salute the effort of groups working together to identify the problems of our troubled Workers' Comp system. The solution must include benefits and rehabilitation for those injured in the workplace. Equally important, the solution must be fair and affordable to the employer and to the provider. To that end, the 220,000 agents and employee-members of the Independent Insurance Agents of America (IIAA) are dedicated.

1 YOUR INDEPENDENT AGENT PROVIDES AN INDEPENDENT CHOICE...

When insurance becomes a problem of availability or affordability, your independent agent, who represents several fine insurance companies, is in the best position to provide reliable alternative markets for Workers' Compensation coverage.

2 YOUR INDEPENDENT AGENT UNDERSTANDS THE NEEDS OF BUSINESS...

As an entrepreneur, Workers' Compensation has an impact not only on clients, but on an independent agent's own business. Nobody is more empathetic to the needs of the business owner, nor is there anybody more dedicated to finding solutions than members of the IIAA!

3 YOUR INDEPENDENT AGENT IS THE INTERMEDIARY BETWEEN YOU AND YOUR INSURER...

As an insurance advisor and a representative of many insurance companies, an independent agent is in a unique position to see both sides of the Workers' Comp issue. We are dedicated to risk management, speedier rehabilitation and to the elimination of abuses that threaten the very existence of the system.

4 YOUR INDEPENDENT AGENT IS BACKED BY THE VOICE OF 220,000 MEMBERS OF THE IIAA...

When it comes to advocating fair and prudent legislation and regulation, at both the state and federal levels, there is no group with a more convincing voice. When the "search for solutions" to Workers' Compensation problems is over, and equitable remedies are in place, it will be because many interests have worked together — and because the IIAA has been relentless in that quest!

Independent Insurance Agent®

INDEPENDENT INSURANCE AGENTS OF AMERICA

It pays to make the independent choice

If a new bill from Dan Rostenkowski passes, companies with big stakes in the advertising business will be delighted—but software and cable companies will take big tax hits.

Procrustean bed

Chas. B. Slackman

"THIS IS a good solution that really does bring certainty to the law," says Christopher Baldwin, a tax director with Gannett Co. Terry Taylor, a tax director at Mentor Graphics, a software firm, vehemently disagrees. "It is totally wrong and doesn't reflect economic reality," says Taylor.

These two tax experts are talking about the same thing: a bill on the amortization of intangibles that is now before Congress. Proposed by influential House Ways & Means Committee head Dan Rostenkowski, the bill would resolve what Internal Revenue Service Chief Counsel Abraham Shashy has called "one of our biggest issues, in terms of both dollars and cases."

Feelings are running high because Rostenkowski's approach is very simple but not very fair. Winners include firms making acquisitions involving lots of goodwill, and, indirectly, any company with a big stake in advertising. Hence Gannett's Baldwin likes it.

Losers? Software makers, firms with government franchises such as a cable or broadcasting license, and many others.

The central issue is this: Over how many years should an intangible asset be amortized and deducted for tax purposes? The shorter the asset's useful life, the greater the deduction and the more tax money saved. A second central issue: Which assets are intangibles and which must be classified as goodwill? This is important because goodwill cannot be amortized and deducted under U.S. tax law.

Because in a service- and knowledge-based economy like ours so many assets are now intangibles, the IRS has fought taxpayers tooth and nail over the appropriate amortization and deduction of intangibles. Big money is involved. Currently the Service is attacking $9 billion of claimed deductions. But in several important cases the courts have sided with taxpayers. That has emboldened them to become even more creative, deducting such intangibles as a pizza pie crust recipe and having a nonunion work force (FORBES, *July 23, 1990*).

Rostenkowski's bill would call a screaming halt to all this with a devilishly simple solution, namely: Declare that *all* goodwill and most intangibles are tax-deductible over an arbitrary period of 14 years. Like the cruel Procrustes, who forced travelers to sleep in the same-size bed by lopping off their legs or stretching them out, Rostenkowski would force nearly all firms to use the same useful life for their intangibles, without regard for the assets' different characteristics.

Under Rostenkowski's simple rules, gone would be the crucial distinction between goodwill and intangibles. Gone, too, would be all the fights over length of a useful life. All of this is bad news for the lawyers at $500 an hour and appraisers at $1,000 a day that companies must hire to hassle with the IRS. "This would put an end to a lot of expensive bother between us and the Service," says Dow Chemical's tax director, Paul Brink.

If the bill becomes law, one very big winner could be the advertising industry. Many tax experts (and the General Accounting Office) argue that advertising expenditures help create brand recognition, an intangible asset. If amortization of intangibles is to be deductible, they say, then advertising—a business cost that is now expensed immediately—should not be entirely deductible. Otherwise, the taxpayer is getting two deductions for one expenditure.

But Rostenskowki has pointedly said that his bill won't stretch out deductions for advertising expenses, although some speculate that if his bill takes too much heat, that could change.

The IRS is happy—the Treasury endorsed the bill soon after it came out—but not everyone else is. For Rostenkowski's bill would also create a large number of losers.

Especially upset are industries with well-established short-lived intangibles. Chief among these are software firms, which worry about the bill on two counts. First, the bill lengthens, to 14 years, the 3-to-5-year useful life that software firms have been allowed to assign most intangibles. Second, they worry that all their customers might have to deduct software purchases over 14 years. Complains Mentor's Taylor: "There isn't a bit of software existing today that will have market value in 14 years."

The most aggrieved companies are those that have renewable government franchises like broadcasting and

The Company That Set The Standards For Midsize Jets Just Raised Them. Again.

At Cessna, we've never been content to leave well enough alone.

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When it was introduced, the Citation III set entirely new standards for midsize business jets. In aerodynamic design. In performance. In efficiency. In comfort. And in worldwide acceptance.

So far, more than 200 Citation IIIs have been sold. Logging over 200 million miles of flying, in every conceivable kind of service throughout the world.

But Cessna has found a way to make the best even better. And it's the Citation VII.

Equipped with Garrett TFE731-4 engines developed specifically for this airframe, the VII is even more powerful than the III. It cruises at 550 mph. And climbs direct to 43,000 feet.

That added power also allows the VII to take off from high altitudes on hot days with excellent payload/range capabilities.

The Citation VII earns high marks in reliability, too. Powerplant inspection intervals are extended by 50 percent, compared to earlier midsize Citations.

Finally, the new Citation VII is loaded with features normally found only on jets costing millions more. Like the electrically heated windshield. The digital avionics package. The externally serviceable lavatory option. And the superbly appointed executive cabin with its stand-up aisle.

For more information on today's most outstanding midsize jet, write to Roy H. Norris, Sr. Vice President of Marketing, Cessna Aircraft Company, P.O. Box 7706, Wichita, KS 67277. Or call 1-800-4-CESSNA.

Citation VII

Cessna
a General Dynamics company

cable licenses, garbage contracts, or landing and grazing rights. Rostenkowski would give no deduction at all—zero—for amortizing these assets. The theory is that because the licenses are renewable they are not wasting assets, and so should not be deductible.

This presents a nice irony: To get any deductions at all from an acquired license, these firms could have to prove that a purchase premium is all (amortizable) goodwill—exactly the opposite of what they have been saying. (The IRS will switch sides, too, claiming that the purchase premium is not goodwill.)

Media investors, take note. Shearson Lehman tax expert Robert Willens points out that some media companies will need fancy footwork to get around a tax court decision of last year. The decision held that certain cable acquisitions contain no goodwill at all. That was very favorable to acquisitive cable companies at the time because it allowed them to classify their franchise agreements as (deductible) intangible assets. But if intangibles based on such licenses are no longer deductible, the court decision may be used by the IRS to keep the companies from reclassifying their licenses as (deductible) goodwill.

Also hit by the bill are businesses that get deductions from acquisitions by using noncompete clauses and continued employment contracts. These are common, especially among smaller businesses, and often have been held to have useful lives of 3 to 7 years. The new bill will at least halve these deductions, by stretching the assets' lives to the standard 14 years.

What about a freestanding asset like a 5-year coal-supply contract or a baseball player's 3-year contract? Details aren't clear, but payments for the services might be deductible over the actual period of a contract, while any premium paid to acquire the contract (say, a signing bonus to the ballplayer) could have a 14-year life.

Rostenkowski's bill (known as H.R. 3035) stands an excellent chance of passing. But whatever happens, one thing is clear: You can have a simple tax law, or you can have a fair tax law; but business life is so complex that you cannot have a tax law that's both simple and fair. —L.S.

Today's Pep Boys bears little resemblance to the auto-supply chain Manny, Moe and Jack left behind.

"Retail is detail"

By Seth Lubove

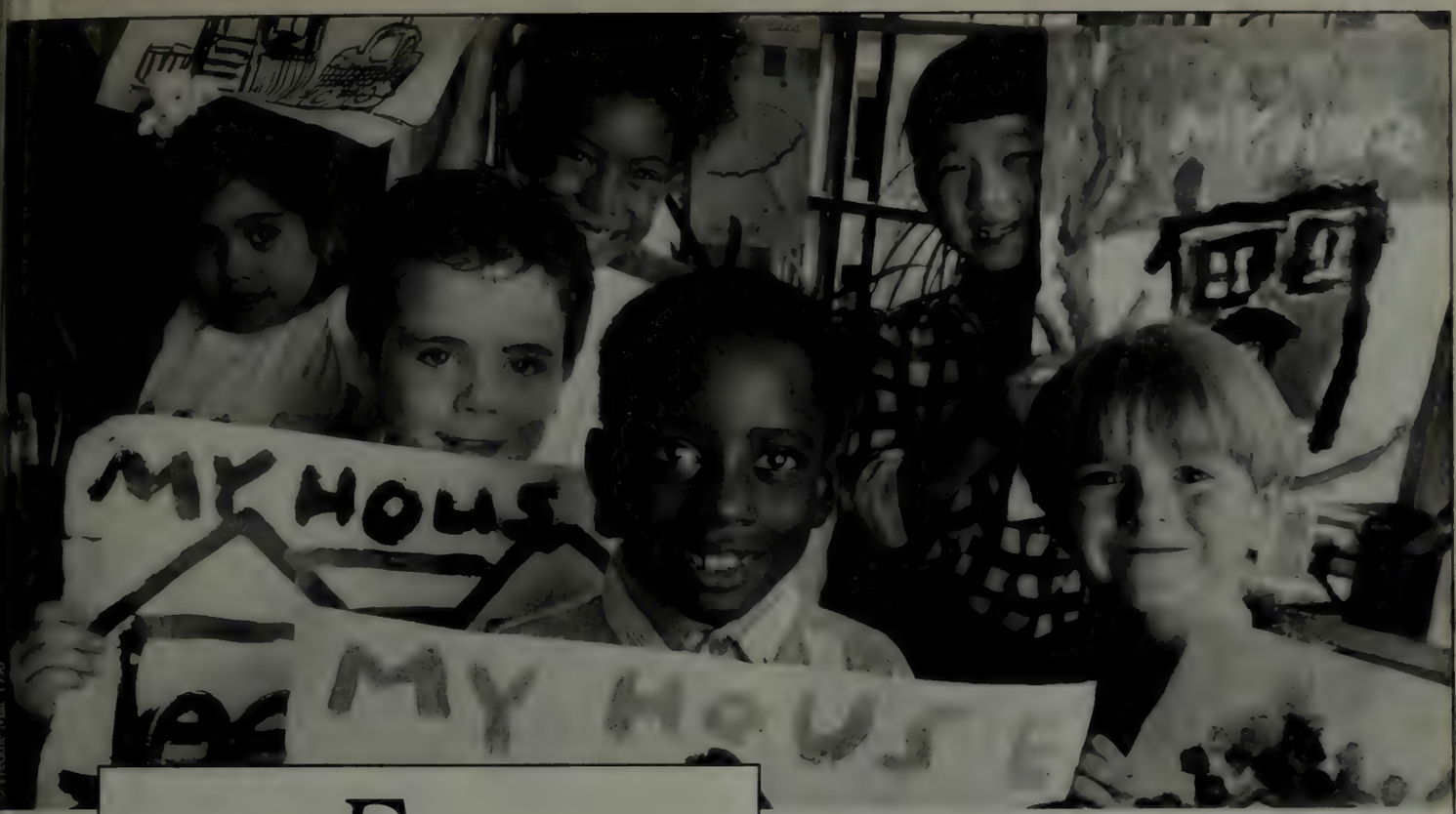
NOTHING lasts forever. Not even Manny, Moe and Jack—those campy, slick-haired caricatures that have been the corporate alter ego of auto-parts and service retailer Pep Boys almost since the company was founded 70 years ago. The "boys," as they're called around the head office, are being phased out of Pep Boys' advertising, catalogs and other promotional material. "It's an attempt to portray ourselves as more modern," says Mitchell Leibovitz, 46, a wiry former accountant who transformed a sleepy, family-dominated firm into an aggressive $1 billion (expected fiscal 1991 sales) national merchant.

The real-life boys—Manny Rosenfeld, Moe Strauss and W. Graham Jackson—started the business in 1921 with a single Philadelphia auto-parts store. Despite the smiles on the caricatures, the boys didn't stay partners for long. Jack left the first year and was replaced by Izzy Strauss, Moe's brother. Then Izzy left to start Strauss Auto Stores in New York. With the Strauss and Rosenfeld families in control now, they opened the first West Coast store in Los Angeles in 1933. The company then went public in 1946.

By the time Moe Strauss died in 1982, Pep Boys had 112 stores. But it was a somewhat schizophrenic operation. The West and East Coast operations had duplicate head office staffs and were never really in sync. In California, for example, cutthroat competition forced Pep Boys to expand the size of the stores and offer more auto accessories, such as seat covers and floor mats. East Coast stores, by contrast, focused more on service.

In 1978 Ben Strauss, Moe's son and the company's current chairman,

Philadelphia Pep Boys storefront, circa 1932
Birthplace of a $1 billion auto parts chain.



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Every Freddie Mac security represents a cross section of America.

One of the main reasons Freddie Mac securities are so attractive to investors is that those securities are made up of a diverse group of mortgages from all parts of the country, representing a varied pool of homeowners.

This diversity is, in part, what makes Freddie Mac securities such low-risk investments.

Minimizing risk has been a Freddie Mac standard from the start. Over the past 20 years, Freddie Mac has become known as the risk management expert, by purchasing only quality loans from quality customers—and by securitizing nearly every one of those loans.

It's this sort of smart financial management that has given Freddie Mac a record of over 80 straight quarters of profitability.

This financial strength has enabled Freddie Mac to fulfill its original goal: making homeownership possible by moving capital into the housing market. Throughout the country, in good times and bad, Freddie Mac has helped finance more than 8 million American homes.

It's a commitment that holds great promise for future generations.

THE IDEA BEHIND ONE IN EIGHT AMERICAN HOMES

Freddie Mac

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Lee Stanger/Wood-Gamp

Mitchell Leibovitz and the Pep Boys
Creating a Home Depot in auto parts.

hired Leibovitz, then just 33, as controller of the East Coast division. In 1986 Leibovitz was named president. With the blessing of the Strauss and Rosenfeld families (which together control 20% of Pep Boys stock), Leibovitz set out to accomplish with auto parts what Home Depot's Bernard Marcus had done with home-repair supplies: create a chain of enormous retail warehouses with extensive inventories of discounted items aimed at the do-it-yourself market. "I consider myself a student and Bernie Marcus a teacher," says Leibovitz, who has two framed letters from Marcus hanging on his office wall.

Leibovitz knew that with the auto-parts business heating up, he'd have to stock as much inventory as possible—as many as 18,000 different items per store, up from 9,000. He eliminated extraneous items like bicycles, even though they accounted for some $20 million in annual sales. This freed up capital for more car-oriented items—Raybestos brakes, for example, and Monroe shocks—but it did something else even more important. Explains Leibovitz:

"You have to do a self-portrait and understand how your new customer will perceive the company. Will they understand from day one what we want them to? Or will they be confused when they walk into a store and see bikes? We had to decide who we wanted to compete with. I don't see tires or batteries being sold in Toys "R" Us, so I can't understand why we should carry bikes."

As Pep Boys' product lines grew, so did inventory—to $235 million worth as of last February, four times the amount in 1986. To keep the goods turning over, Leibovitz added new point-of-sale computerized inventory control systems, at a cost of around $10 million. By monitoring daily sales of items from each store, Leibovitz can tailor his inventory to a particular local market, while setting prices from the home office. Where a store located in a rural area would carry more pickup-truck parts, for instance, another store near a college town might carry more foreign automobile parts.

"I believe retail is detail," says Leibovitz, noting with satisfaction that this year's inventory should be the same or less than last year's. "When I think back about not having these systems it frightens me to think we could operate."

In yet another blow to the nation's mass-market newspapers, Pep Boys is gradually pulling the full-page ads it used to run in local sports sections. Instead, the company is turning to television and multiple-page catalogs, sent directly to consumers or inserted in newspapers, that allow it to illustrate the expanded merchandise—another trick Leibovitz learned from Home Depot's Marcus.

Pep Boys now has 326 locations in 18 states. It also has quite a bit of debt (45% of total capital) but rising cash flow. While earnings have taken an expected hit from all the expansion—down 17.8% for the first half, to $18.5 million—sales have more than doubled in the last five years, to the $1 billion expected for the fiscal year ending next February.

Wall Street has warmly applauded Leibovitz's progress. The company's market value has jumped from $556 million at the end of 1990 to a recent $1 billion. Pep Boys stock, recently 18¼, trades for over 30 times the 60 cents a share Pep Boys earned in the trailing 12 months. But if analysts' forecasts for fiscal 1991 (ending February 1992) of earnings of 72 cents a share pan out, the stock is priced at about half of Home Depot's 50 market multiple. The company got off to a good fiscal second half with an increase of 8.5% in same-store sales in August. This was an important number as August 1990 was Pep Boys' last strong month before the recession hit the chain.

Images of Manny, Moe and Jack might not be as prominent around Pep Boys these days, but their legacy is firmly intact.

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THE BEDROOM ISN'T THE ONLY CHAMBER THAT PENTHOUSE GIVES YOU AN INTIMATE LOOK AT.

When a condemned man in Florida State Prison has a date with "Ol' Sparky," officials choreograph the event with military precision.

At dawn, the last meal. At 5:30, shaved head. At 6:50 last walk and so on until electrodes and power lines, straps and leather mask are in place for the throwing of the switch at 7 o'clock sharp.

In a recent exclusive story, *Penthouse* revealed that nobody knows exactly how much it takes to kill a human being with electricity, but what's used is always sufficient: an automatic cycle from 2000 volts and 5 amps to 500 volts and 15 amps for a full two minutes.

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Whether you think the death penalty deters crime or makes killers of us too, *Penthouse* believes it's important to know the harsh truths behind it.

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Also, first place in newsstand sales over all other men's magazines. Starch ad scores higher than those of *Playboy, Esquire, Sports Illustrated, Field & Stream* and *Time*. And a 17.4% ad page increase over the last year. Those are strong signs of life.

PENTHOUSE

WHERE NOTHING IS MORE NAKED THAN THE TRUTH.

*Leslie Rifkin Penthouse Readers per Copy study Pub. Statement 6 mos. ending June 1989.

Smith/Greenland, Inc.

Events in Russia give the word "realism" a new meaning in international affairs. Not every Western statesman has grasped the new meaning.

The invisible filament

BY MICHAEL NOVAK

Michael Novak holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely translated around the world.

THE GREATEST Russian novelist, Fyodor Dostoyevsky, wrote that an invisible filament of charity girds this planet and passes along its impulses with the speed of light. A person who receives a smile of generosity smiles in turn at someone else, he wrote, and thus in seconds a smile circles the earth. Liberty, too, travels fast.

Fanciful? We ourselves have now seen that smiles do move with the speed of light—and so do human hope and aspiration and the urge for freedom. With modern technology, the world watched breathlessly as the 60-hour coup of Aug. 19 began—and collapsed. The outside public cared about what they saw and the peopl who faced the tanks knew they cared That caring made a big difference Many Communists couldn't bear t participate in another Tiananme Square, which they themselves ha watched on television.

Two things came clear. First, glas nost had obviously worked a pro found change in the hearts and mind of the Soviet peoples in five shor years. People lost their fear. They fel new obligations to themselves. The had discovered in themselves a certain dignity, a sense of relying on no one else—which is what is meant by "the taste of liberty." As they would not have done five years ago, officers and men in the KGB and army thought twice before following orders. When soldiers won't use them, the most fearsome weapons in the world may as well sprout flowers. Many soldiers chose to defend Parliament; so did workers at the nearby Likhatchev auto plant, who sent delegates to man the barricades.

Second, in the last few years new technologies have come to trouble tyrants. Ten years ago Poland's General Jaruzelski easily shut the world off

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from Solidarity; in 1956 in Hungary and 1968 in Prague, the KGB and Red Army never flinched. What was different this time, besides glasnost, was technology. Satellites, hand-held minicams, fax machines and long-distance computer hookups made it virtually impossible to put an iron curtain around Moscow. Telephone messages bounced off satellites, pictures appeared on television screens in real time, fax messages flew across continents and oceans. The world stayed in touch.

Some years ago in a pamphlet on human rights (published by Freedom House, 48 E. 21st St., New York, N.Y. 10010), I wrote that "realism" must now have a new meaning. The realists used to count up only divisions, weapons and secret agents. Now they must take account of new technologies that are making the human spirit one—giving the whole social body, as it were, one nervous system. Individuals in once remote places gain courage from others who already cherish liberty and self-government. (After the U.S.S.R., are Cuba and China next?)

So communism collapsed under assault from the newly liberated human spirit, allied with new technology. Hand-held cameras, faxes and satellites heighten the spiritual dimensions of life, pierce matter itself with the impulses and messages of mind. This technological revolution flows from the spirit of invention and creativity that is the heart and soul (the *caput*) of capitalism.

Thus, the triumph of capitalism over socialism occurred at a quite profound level. Capitalism produced the goods and technology, vastly improving the life chances of workers and the poor, while socialism did not. At the same time, this technology opened new frontiers for the human spirit and engendered solidarity in liberty.

August 1991 has significance far deeper, therefore, than the collapse of the Soviet-Communist Party, immeasurable gift as that may be for the human race. It signifies that—thanks to technology—ordinary people are becoming aware of their own power of consent and responsibility. These events mean the end of American exceptionalism. No longer can people say that American-style democracy is only for Americans. More and more peoples of the world are now also saying, "We hold these truths to be self-evident. . . ." In their own inner natures, they find a force more powerful than arms. They are far ahead of many leaders of the world, the "old realists."

In the brief crisis produced by the coup French President François Mitterrand showed himself to be a realist of the old, outmoded school. He waited for the outcome before declaring himself against the coup. After a short, frustrating interval, President Bush showed that he grasped the "new realism" when he declared the coup illegal and aligned the U.S. with Yeltsin and Gorbachev.

Margaret Thatcher got it right more quickly than anyone. Hearing of the coup in Moscow the night before, she said instinctively on Monday, Aug. 19, that the coup would fail. She believed that the Soviet "masses" had become a "people," that is, self-organized individuals who felt responsible for their own destiny. She saw instantly the power of the new realism, one based on moral force, not force of arms alone. ■

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Are bankruptcy rules too lenient for debtors? Real estate lenders have cause to think so.

Sweetheart deals for deadbeats

By James Lyons

RETIRED DENTIST Charles Mayer has learned that getting money from a Chapter 11 debtor is about as easy as pulling teeth.

Mayer and six other dentists are partners in a venture that owns a 40-unit apartment building in Albuquerque, N.M. Back in 1983 Mayer's group sold the building to another investment partnership. The terms of the deal called for the new investors to pay Mayer's group at least $4,427 every month.

New Mexico has not been immune to the real estate recession. In late 1989 the new investors started to default on their payments, forcing Mayer to ask a New Mexico state judge to appoint a receiver to take control of the property. But just hours before Mayer's lawyer was supposed to show up in court for a hearing to appoint the receiver, she was stopped dead in her tracks. The debtors had filed for Chapter 11, freezing all actions against them.

Now a receiver could not be appointed to manage the building. Nor could it be sold without approval from the bankruptcy judge. Yet Mayer's group was still responsible for paying each month for the building's first mortgage—and the newly bankrupt debtor kept all of the rental income that was coming in.

Real estate lenders claim this happens all too often. The Mortgage Bankers Association of America estimates that between 1985 and 1990 real estate lenders lost $1.7 billion due to delays caused by Chapter 11 filings.

Mayer did not suffer in silence. He complained to his congressman, who listened. This summer Representative

Jean-François Allaux

Steven Schiff (R–N.M.) introduced a bill to correct the problems caused by deadbeat real estate owners who use bankruptcy laws to evade foreclosure.

Backers of Schiff's bill, which include the American Council of Life Insurance, take pains to point out that the bill would apply only to single-asset real estate projects. Thus a manufacturer who defaults on his mortgage would be spared. But a partnership that owns only one office building would not.

The biggest problem for real estate lenders is that the odds of a bankruptcy resulting in a viable reorganization plan are abysmally low. In fact, a survey of all Chapter 11 filings shows that only 17% result in court-approved reorganization plans.

Schiff's bill would require a debtor to file a realistic reorganization plan within 90 days of filing for Chapter 11, or recommence interest payments to the lender. As it stands now, debtors under Chapter 11 have the right to file a reorganization plan within 120 days of filing, but that deadline is frequently extended at the debtor's request.

In Mayer's case, the debtor never bothered to file a reorganization plan. More than five months after the Chapter 11 filing, a trustee was appointed to manage the building.

With little prospect of a successful reorganization, a debtor has no incentive to keep up a property. The diminished value of their assets is part of the pitch the mortgage bankers and life insurers are making in support of Schiff's bill. The ensuing disrepair obviously affects tenants as well.

Two other provisions of Schiff's bill would allow creditors to at least get some immediate relief. A Chapter 11 filing stays lenders from foreclosing on a property. Under Schiff's bill, the foreclosure actions, which usually are in state courts, could proceed during the bankruptcy, up to the point of a sale. In other words, all the paperwork could be completed and the property would be sold without delay as soon as a reorganization plan was executed.

Bankruptcy also prevents lenders from sharing in the rental income from a property, even though many loan agreements call for lenders to share in the rent if the borrower defaults. Schiff's bill would recognize such deals as "cash collateral" and prevent the debtor from just pocketing the rent during a Chapter 11.

The likelihood that Schiff's bill will become law this session of Congress is low. A Senate subcommittee is now planning technical revisions in the bankruptcy code, and some aspects of the bill may be included. But the central thrust of the legislation—setting a 90-day deadline for a reorganization plan—could be fobbed off on a commission charged with studying the entire bankruptcy code.

Bankruptcy provisions must strike a balance between a debtor's right to reorganize and a creditor's right to collect. But as long as the bankruptcy code can be used as a tool for stiff-arming lenders, the lenders will seek to protect themselves against the deadbeats' legal maneuverings. ■

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How do you describe the process by which a client picks an advertising agency? It's something like an elaborate, stylized mating dance.

"You've got to be perfect, but not plastic perfect"

LAST SPRING Club Med Sales Inc., the subsidiary responsible for Club Med's crucial American market, told its longtime ad agency, Ammirati & Puris, that it would entertain other suitors for its $15 million account. Why? Ammirati had produced some memorable, punchy advertising for Club Med, including the theme "The antidote for civilization." But Club Med's U.S. and Canadian business had stagnated at around 220,000 guests a year since 1986 (FORBES, *Sept. 4, 1989*). Management decided its advertising needed a new look. In a few weeks, Club Med will launch fresh advertising from its new agency, TBWA, the same folks who do the ads for Absolut vodka and Air France. The new commercials will be aimed at families and self-improvement rather than self-indulgence and sex. The new theme: "Take home a Club Med vacation."

"Give your kids a videogame, and it'll last a couple years," runs the script of one commercial, as a young girl climbs a circus trapeze at a club. "But give your kids a chance to do something that soars beyond their imagination,"—swing, somersault, triumphant dismount—"and they'll take home something that will last forever." Heavy on the spiritual uplift, light on the hedonism.

How did Club Med choose its new agency? Through the familiar, gawky, stylized courtship dance called an advertising agency review—a bizarre process different from selecting almost any other kind of business partner or supplier. It's loaded with emotion and showmanship.

TBWA's road to the Club Med account was typically grueling. It began in April, when Club Med Sales President Michael Kubin, advertising vice president Anthony Salerno, consultant Robert Beleson and Club Med's marketing staff came up with a list of agencies they wanted to interview based on past work.

With $15 million to spend, Club Med is not in the same advertising league as, say, big-time car companies, whose accounts can easily top $100 million. Nor is it considered particularly profitable, since a retail operation like Club Med requires a lot of costly caretaking. Agencies usually make money as a commission on the client's media spending. They love accounts that require only a few commercials that air over and over and that, once packaged, do not require a lot more work. However, as a travel advertiser that promotes special packages through newspapers, Club Med requires constant attention to the seasonal ups and downs of tourism, raising the cost of handling it.

But Club Med also has what the ad business calls "marquee value"—prestige, glamour and high visibility in New York—where the judges at the ad industry's all-important creative awards are sure to see the work. So, despite the problems involved, it's an account any ad agency would kill for.

Club Med winnowed down an initial list of 52 ad agencies to 17, then to 9, then to 4 finalists and Ammirati, which was given the chance to hold on to the account. Ammirati chose not to compete. Sensibly so. When a client's eye starts to wander, the marriage is usually past saving.

Smaller agencies strove mightily for a crack at the account. One day Michael Kubin received a box containing only shreds of burnt paper and videotape. Soon after, a telegram: "We tried to send you our reel but the competition destroyed it." Reels are videotapes of an agency's collected television ads. The ashes and telegram came from Cliff Freeman & Partners, a small creative "boutique" that is

Rob Goldman

The winner: TBWA films an ad for its new client **"Take home a Club Med vacation."**

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part of Saatchi & Saatchi. The ploy got laughs, but Kubin decided it wanted a bigger agency.

Then came another surprise. Ogilvy & Mather, one of the final four, abruptly dropped out, telling Club Med only that it couldn't spare the manpower for the presentation. Kubin replaced O&M with Messner, Vetere, Berger, Carey & Schmetterer, recent winner of the Volvo account. The other finalists were TBWA, Chiat/Day/Mojo and Saatchi.

The Messner agency seemed to have an advantage going in. It is affiliated with the French agency that handles Club Med's advertising in Europe. "In France, choosing an agency is not just rational, it's also political," says Serge Trigano, chief executive of parent company Club Med S.A.

For the final presentations, Kubin called for rough outlines of prospective commercials, not finished work. That cuts down the expense significantly for the ad agencies. Still, to snag an account as alluring as Club Med, each agency went immediately on war footing. All the agencies dispatched teams to Club Meds around the Caribbean and Mexico to interview guests and pick up a feel for the product. Saatchi, for example, told Kubin it mobilized some 80 people and spent some $350,000 to prepare for the finals. Chiat reportedly spent $250,000.

All the while rumors ran rampant. TBWA is a shoo-in because it has a strong Paris office; Kubin's son goes to school with the son of Michael Keeshan of Saatchi, giving Saatchi a lock. "It's a gut-wrenching, gossip-filled process," says Kubin.

Finally, on June 12, came the pitch. The pitch is a delicately choreographed performance by ten or so agency people, lasting several hours. It takes the client through the agency's marketing analysis, its creative solution to the client's problems, and the support services like direct mail and sales promotion it offers. But most important, it tries to establish chemistry—the often elusive emotional rapport that will convince a client to adopt the agency as a partner for the indefinite future. Or until the passion wanes.

"You can't blow anything. Every nuance, every question the agency answers is either going to forward the action or hurt them," says Kubin. "You've got to be perfect, but not plastic perfect, because then you lose the audience. Human perfect."

Saatchi pitched first, hitting the Club Med team with a video of an artichoke whose leaves fall off to reveal a heart—a slick Madison Avenue metaphor to warm up the room.

Each agency had its own opening gimmick. Chiat created a Club Med-style boutique with trinkets, TBWA showed a video of its creative team at the Club. "Quite frankly, it's sort of hokey, but it's their way of saying, 'We know your culture and we're part of your team,' " says Kubin.

Rob Goldman

Club Med's Michael Kubin and Anthony Salerno
"A gut-wrenching, gossip-filled process."

Like TBWA, Saatchi stressed the emotional payoff of a Club Med vacation. The commercials were built around a series of vignettes of remembered moments by guests, closing with the tag line, "You had to be there." It went over big.

Messner, Vetere, Berger, Carey & Schmetterer, next up, provided the most incisive marketing analysis. The Club Med problem, as Messner saw it, was that the activities the club was known for looked like regimentation for guests who had never tried the club. Thus, the group activities regulars adore are perceived as regimented play, and staff members, or "G.O.s," are seen as camp counselors.

Messner's solution was a series of testimonials that Messner called a "bouillabaisse of information"—a scuba ad, for instance, featuring two whales but no people. The Club Med people felt it was too offbeat.

Chiat/Day/Mojo, surprisingly, self-destructed. "We figured it was Chiat's account for the taking," says Kubin, "but they were like a fighter who peaks too soon." Chiat's team recommended against a straight media campaign. It suggested using teaser spots with the line "What's on the tape?" to direct viewers to send away for videotapes that would give a fuller picture of Club Med. But then Chiat punted when asked for details of what it would include on the tape, or how to test the novel approach.

"They're saying, 'You can't build this business with 30-second commercials' to Serge Trigano, who built this business with 30-second commercials," says consultant Robert Beleson. "Both Mike Kubin and I consider Jay Chiat to be a genius, so when he finished up, we felt empty and disappointed."

Now it was TBWA's turn. "I had warned them, 'If you hit it, you're going to get the business, but your chances of hitting it are very slight,' " recalls Kubin. But the presentation went stunningly well. William Tragos, the agency's head, helped his cause by speaking French to the French. "The French can be very intimidating—they send back the wine and we don't—but we're not afraid of them," boasts Tragos.

TBWA, the popular favorite, got the account.

Even then the losers didn't quite give up. Last month, while a production crew of 40 was filming Club Med's new spots on the Bahamian island of Eleuthera, Kubin got a phone call. It was Jay Chiat. "I hope," he kidded, "you've come to your senses." It was a good try, but Club Med was committed.

As perhaps fits a Frenchman, Serge Trigano sees the whole advertising agency choosing and rejecting ritual in courtship terms. "When you choose an advertising agency," he sighs, "everything is beautiful—you fall in love. But when you quit, it is not so beautiful." –J.L.

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The black-and-white world of office computing is about to get more colorful, thanks to all kinds of color computers, printers and software.

Color is coming

By Kathleen K. Wiegner

CAN YOU NAME the first movie produced in color? Don't be embarrassed if the 1932 Disney cartoon "Flowers and Trees" didn't instantly spring to mind. Few remember that this three-color Technicolor film ever existed, but it started a major trend.

Now color is on the verge of changing the look of dreary business documents. There's lots of evidence that color increases a document's effectiveness and boosts reader retention and understanding of the material. Color is the first element people notice when they look at a page of written material. But until recently the only way to get color in business forms, newsletters, reports, manuals and the like was to send them out to an offset press, expensive and time-consuming.

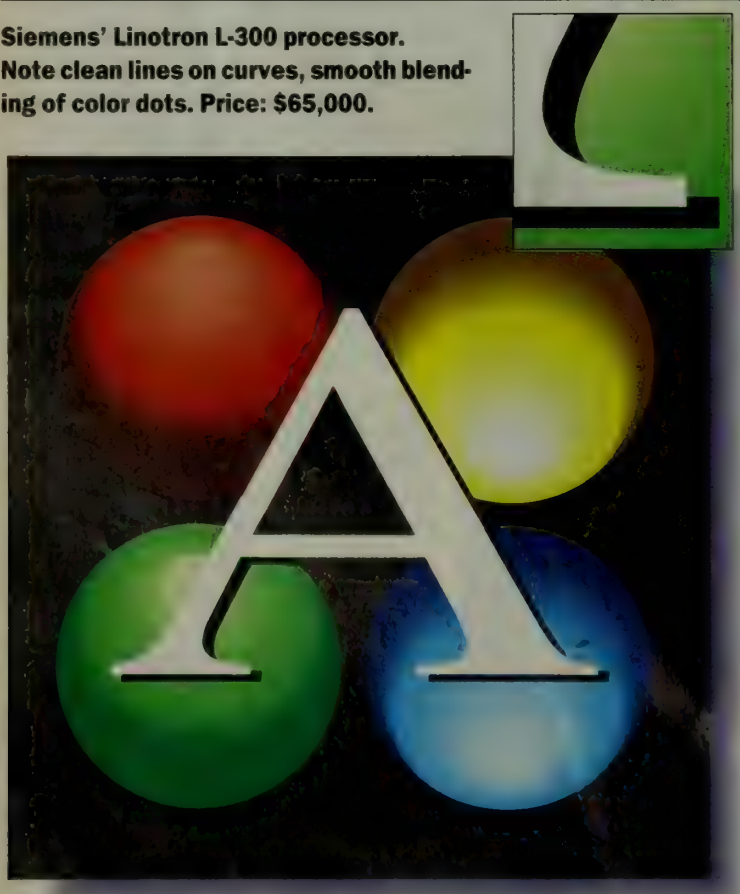
Perhaps 70% of the new computers sold this year will go out the door with a color monitor. But controlling the color on these screens was always a different story. You needed a special color graphics circuit board, which could set you back as much as $10,000. And until recently a color printer was hard to find for under $10,000. No wonder that although graphics designers and art departments use color, it is still a black-and-white world for the rest of us.

But color is getting more affordable, thanks to a flood of printers capable of dealing with color that hit the market this year. No desktop printer can match the color accuracy and high resolution of a professional printing press, but for corporate presentations a thermal wax transfer printer costing between $6,000 and $10,000, or a color ink-jet printer for under $700, are perfectly acceptable *(see sample images)*.

We're even on the verge of seeing color faxes. Sharp recently announced one of these priced at $31,995, and NEC and Canon Inc. have exhibited comparable color fax machines at trade shows in Japan.

Basically there are four different printer technologies that produce color. At the top of the line are laser printers like the $49,000 Canon Laser Copier 500 (which doubles as a color copier). The color laser process is similar to photocopying but more complex. A static charge is applied to a

Siemens' Linotron L-300 processor. Note clean lines on curves, smooth blending of color dots. Price: $65,000.



Scitex Corp.'s Iris SmartJet 4012 high-resolution color ink-jet printer. Price: $50,000.

hotoreceptive drum. Then a laser aps the charge away from the area hat will not be printed. When toner is pplied to the drum, it adheres to the emaining charged areas. Finally the mage is transferred electrostatically o paper and fused with heat and ressure. The printer uses four sets of lrums, toners and developers, mak- ng it bulky as well as expensive. But he quality is very close to the original.

Somewhat cheaper and almost as ood are the subliminal-dye printers rom companies like Du Pont Print- ng & Publishing, Eastman Kodak, Mitsubishi Electronics America and Nikon. These printers use an ink rib- bon with alternating bands of cyan, nagenta, yellow and sometimes black. The printing is done by a series of pins, which are heated to specific emperatures and cause dots of ink from the ribbon to vaporize and dif- fuse onto the paper. These printers, which are capable of producing mil- lions of distinct colors, range in price from $14,000 for the lower-resolu- tion Japanese models to $27,000 for the Du Pont machine, which can turn out pages almost indistinguishable from a photograph.

Thermal wax printers made by companies like QMS, Tektronix, NEC, Seiko and Océ Graphics use a similar technology but produce coarser im- ages. They are also cheaper, mostly running under $10,000. These print- ers also use heated pins to produce different colors, only these pins melt dots of colored wax, one color at a time. One disadvantage of this tech- nique is that a three-color image has to go through the printer three times.

Finally, there are ink-jet printers, which create images by spraying fine ink droplets on the page. Hewlett-Packard's new DeskWriter C is a black-only ink-jet printer that con- verts to a color printer by swapping ink cartridges. The DeskWriter C lists for just $1,095. Tektronix recently introduced a different type of ink-jet printer dedicated to color that squirts jets of wax-based inks. Called the Phaser III PXi, it is priced just under $10,000 and produces larger and more vibrant prints.

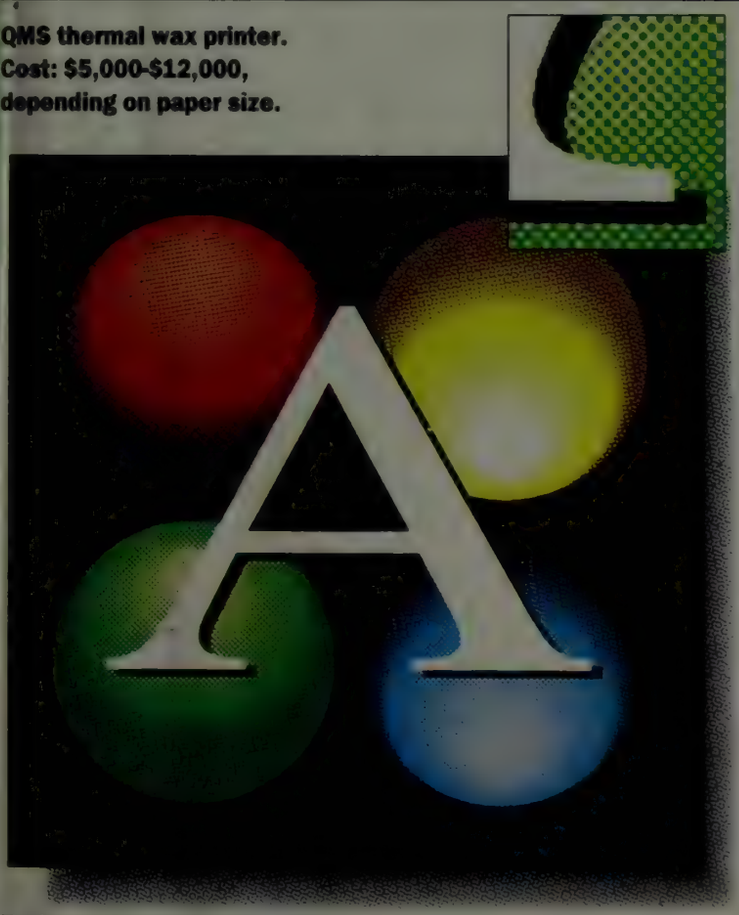
Sometimes a company needs only a splash of color to highlight a piece of information. This is what Xerox's new 4850 highlight color laser printing system was designed for. Using tech- nology called tri-level xerography, the printer applies black plus a red, green or blue toner at the same time, so the paper has to go through the printer only once. Xerox is aiming the $140,000 printer, which prints 50 pages a minute, at large data centers that turn out invoices, reports, price lists and technical documents. High- lighting certain bits of information, like changes in a price list, or an old balance due, draws the eye to that information.

Most color printers are slower than conventional ones. For example, the HP Deskwriter C takes four to seven minutes to print one page in color, depending on the complexity of the image, versus two pages a minute for monochrome. That compares with under two minutes a page for thermal wax printers.

There are still technical problems to be solved. Once you've created a color document on a screen, getting it to print out on some of these devices can be tricky. Also, colors change subtly from machine to machine. The problem of reproducing exactly the color you see on your computer screen on your printer is still being hashed out. Finally, color copiers need to come down in price so you can run off cheap multiples.

But these problems will get solved. In the meantime, color documents are getting cheaper and better. ■

QMS thermal wax printer. Cost: $5,000-$12,000, depending on paper size.



Hewlett-Packard Paintjet color ink-jet printer. Price: under $700.

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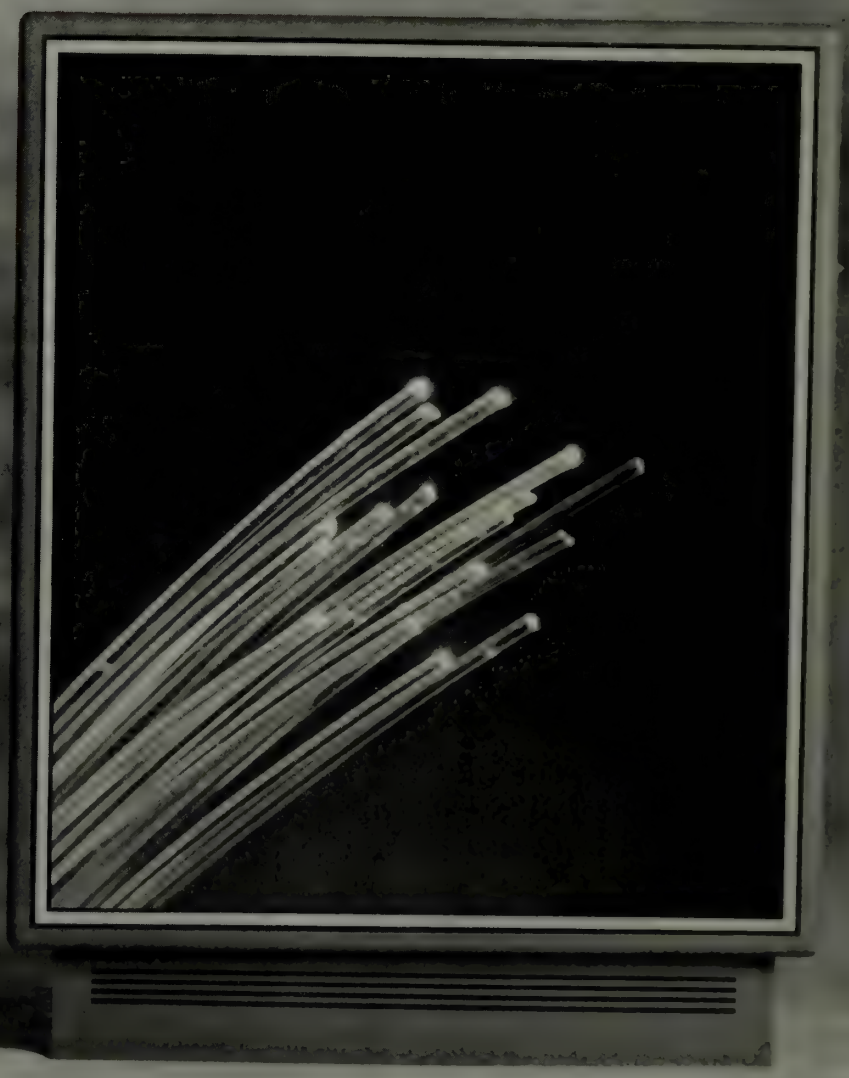

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Mentor Graphics was a 1980s success story. Then it discovered it was a little slow to adapt.

"We have to change"

By Kathleen K. Wiegner

PORTLAND, ORE., home of running-shoe maker Nike, has watched as some of its technology winners, like Tektronix, Sequent Computer and Floating Point Systems, stumbled during the last decade. Now add to that list Mentor Graphics, the $435 million (1990 revenues) maker of software and systems for designers of electronic products like integrated circuits, custom chips and printed circuit boards. Last month Mentor announced plans to ax 15% of its 2,900 workers and take "a significant, one-time writeoff" in its third quarter. Mentor lost $14 million in the first half of 1991 on declining sales.

When Mentor was started in 1981 by a group from Tektronix to sell desktop computers for electronic designers at aerospace, semiconductor, computer and telecommunications companies, competition was stiff. Two other electronic design companies, Daisy Systems and Valid Logic Systems, both in northern California, were already in the market. Mentor pulled ahead by having its computers built by Apollo Computer and concentrating on software.

The strategy worked. Daisy merged with a competitor, then filed for Chapter 11 before being acquired by computer design giant Intergraph late last year. Valid is a distant also-ran. Going into the 1990s, the only significant competition Mentor faced was from Cadence Design Systems, which sells software only.

Where did Mentor go wrong? In failing to keep pace with change in its industry. It fumbled an important product update, arriving late with a new version of its software. At the same time, the workstation market changed, and Mentor had to begin redesigning its software for Sun Microsystems' popular machine. The recession added to Mentor's problems.

Equally important, Mentor was isolationist at a time when customers of its $45,000-to-$75,000 products were demanding open doors. Personal computer users are accustomed to buying their computers from one manufacturer and their software from a variety of suppliers. But Mentor had tried to keep its customers locked into buying only Mentor software. "We got a little fat and lazy by having the umbrella of a closed system," says Thomas Bruggere, Mentor's chief executive and cofounder.

Mike Chenne/Picture Group

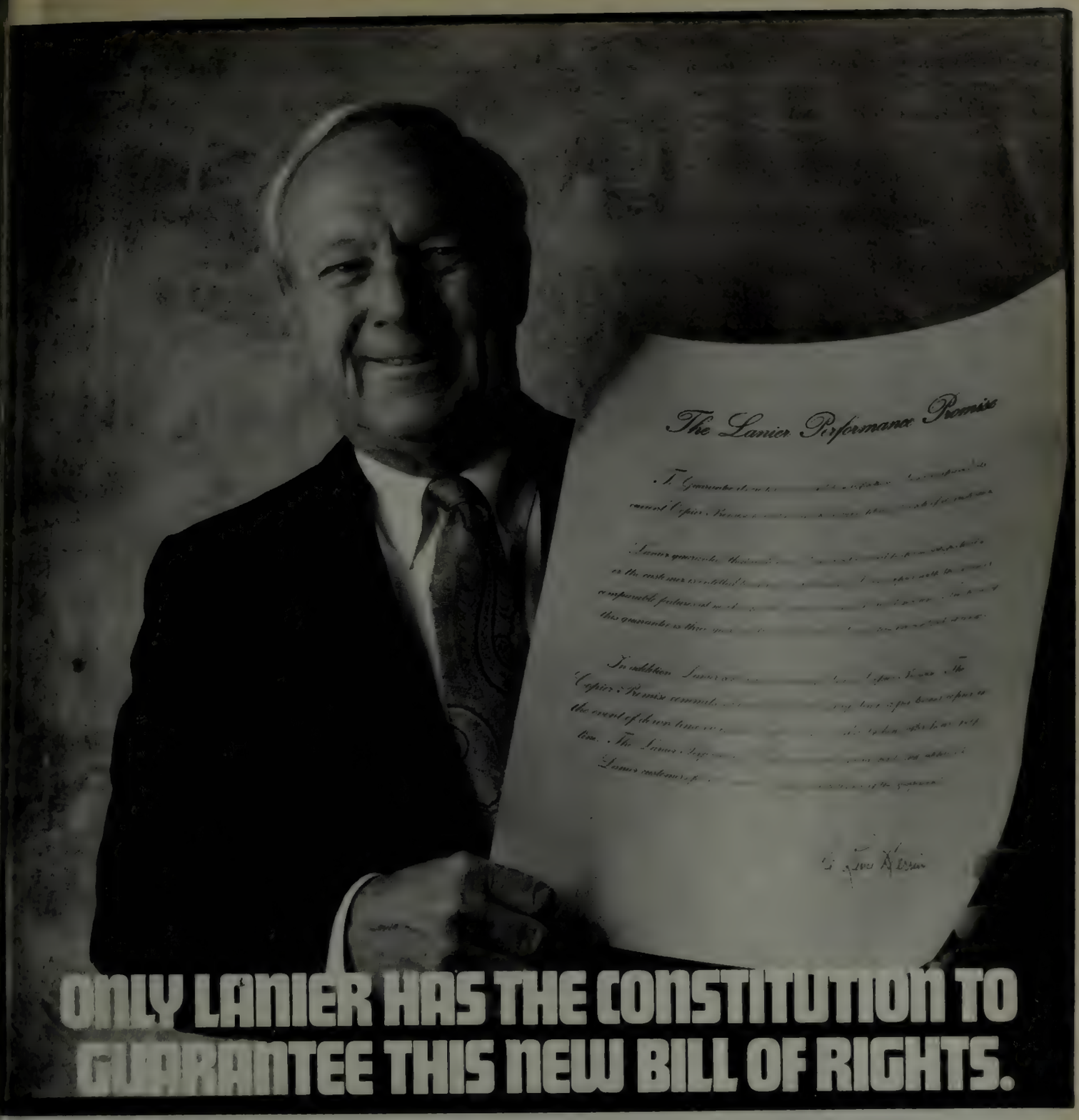
Mentor's Bruggere **Like the old Macy's in "Miracle on 34th Street," a salesman should give the customer what he wants, even if Mentor doesn't sell it.**

This one-stop shopping worked in the early days, when engineers were happy if a workstation automated a few of their tasks, such as designing an integrated circuit or a printed circuit board. But these days engineers want everything from their software: timing verification (which ensures that a chip's internal clock doesn't change speed); behavioral simulation (which lets the computer figure out the best way to arrange transistors on a chip based on an engineer's description of the chip's "behavior"); and other esoteric stuff. Moreover, customers want the freedom to be able to buy the best programs from different vendors and have them all work with Mentor's basic software.

Somewhat belatedly, Bruggere has begun cooperating with companies that make the software requested by his customers. "No one vendor can do it all," says Bruggere. "We can't solve everybody's problem." Mentor will work with Hewlett-Packard, which acquired former supplier Apollo, with SDRC (FORBES, *June 25, 1990*) in computer-aided mechanical engineering, and with Interleaf in electronic publishing.

Bruggere is also shifting the company more toward supplying software only, if that is what customers want. In another new partnership, Hewlett-Packard will service the hardware Mentor sells. This should result in a new Mentor that will get 20% of its sales from hardware systems and 80% from software. While revenues will not grow as rapidly as they did in the past, the higher gross margins on software should pay off.

Mentor stumbled, but it is still a strong contender in electronic design. The firm has nearly twice the market share of its nearest competitor—29% to Cadence's 15%. By the end of the year most of its product transitions will be finished. Bruggere has also moved to widen the company's top management beyond the founders. "We need processes and procedures for making decisions rather than two or three people," says Bruggere. "The technology business is very unforgiving. We have to change."



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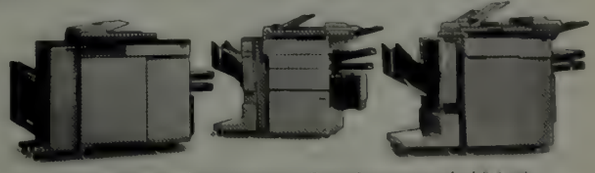

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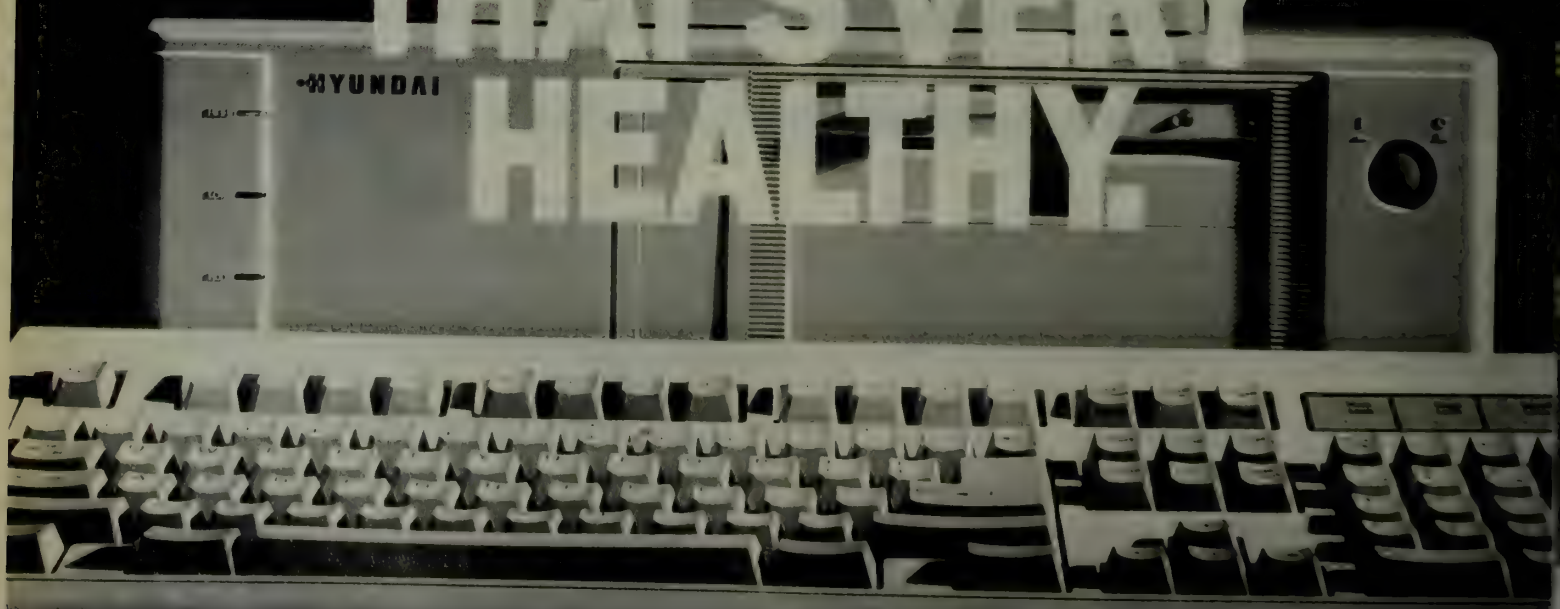

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Intel lives

COMMENTARY BY RICHARD A. SHAFFER

Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of *Technologic Computer Letter.*

NATURE ABHORS a profit. That's why God invented competition. Which explains the rising competition against Intel, one of the most profitable technology companies. Other microcircuit makers are copying its bestselling products; one is suing for supposed abuse of corporate power, seeking $2 billion. Customers are banding together against it, hoping to find other suppliers. Intel's Japanese enemies, which are far larger than Intel, are gaining strength.

The stock market thinks Intel's best years are behind it. Intel shares are off from their 52-week high by 20% and, at a recent price of 47½, trade at a price/earnings ratio of 13—a merely average price in the present market.

Is Intel finished as a growth stock? Don't count on it. The monopoly Intel had on supplying the microprocessor guts of personal computers may have ended, but the company is making the right moves to maintain its dominance.

When IBM entered the personal computer business a decade ago, the profit was in the computer itself. But intense competition turned the personal computer into something of a commodity, rerouting profits from the companies that make personal computers to those that supply its microprocessor, Intel, or its operating system, Microsoft. Because of its insistent refusal to grant other chipmakers the once-standard right to make its parts, Intel was for a long time the only supplier of the hardware technology at the core of the personal computer revolution.

Now, however, a few competitors have devised clones that legally mimic the operation of Intel's microprocessors. The first of these were copies of special-purpose Intel processors. Then came clones of its general-purpose 386 microprocessors. Next we'll probably soon see versions of its top-of-the-line 486.

The clones merely emphasize Intel's role as the technology pacesetter for the industry. It's not farfetched to call Intel one of the few real computer companies in the personal computer business, because many of its customers do little more than package standard components around Intel microprocessors.

In the decade since IBM introduced its PC, based on Intel's 8088 microprocessor, Intel sales have risen fivefold and will reach more than $5 billion in 1991. Earnings have grown even faster and are expected to amount to $800 million this year. If present trends continue, Intel this year will pass Motorola, becoming America's largest independent semiconductor manufacturer.

Meanwhile, however, Intel is seeking customers in segments of the computer industry that are growing rapidly and profitably. For example, one way that the company is keeping a step ahead of its imitators is by designing special versions of its microprocessors for use in portable computers. Because portables use batteries, they need microprocessors that consume less power than conventional chips.

In addition, Intel is planning to make full-blown portable computers for resale under other brand names. Another Intel technology currently under development, known as flash memory, will be an important information storage medium in portable computers.

Intel has entered the still-booming workstation segment by designing and making a high-performance desktop computer for Digital Equipment Corp. Intel also is working with the leading workstation supplier, Sun Microsystems, to ensure that programs designed for Sun computers also will run on Intel-based computers.

To prepare for the coming era of so-called client-server networks, in which groups of small computers share the work formerly done by one larger system, Intel is designing new microprocessors that will cooperate more readily.

Through advertising, the company is trying to build name recognition, hoping that computer buyers will insist on PCs that contain genuine Intel parts, not imitations. Another way Intel is foiling imitators is to hook customers on complex chips that bundle its 386 microprocessor with other circuits that usually are sold separately.

Intel has tripled development efforts on a family of microprocessors that are compatible with its 386 and 486. It also is speeding up the development schedules for the new chips to accelerate their arrival in the market. In the middle of next year, Intel will probably begin selling sample quantities of a 3-million-transistor processor known as the P5; that's about a year earlier than originally planned. Two years later, samples should be available for Intel's P6, which will contain 5 million transistors.

For the next year, much of Intel's profitability depends on acceptance of the 486, which is going well despite a slow start. The millionth 486 was shipped in June, and the 2 million mark should be reached by December. The rapid growth and higher price levels of the top-of-the-line 486 microprocessors—$445 per chip in quantity—seem to guarantee that it will become the leading cash generator for Intel, probably by next year.

Ironically, Intel has even managed to become a part of the very cooperative efforts organized against it. That's because all anti-Intel machines must be compatible with the desktop computers that customers already own, and most of these are based on Intel microprocessors.

"The greater the competition, the lesser the profit" may be a universal law, but so far Intel has managed to beat the odds.

intel inside

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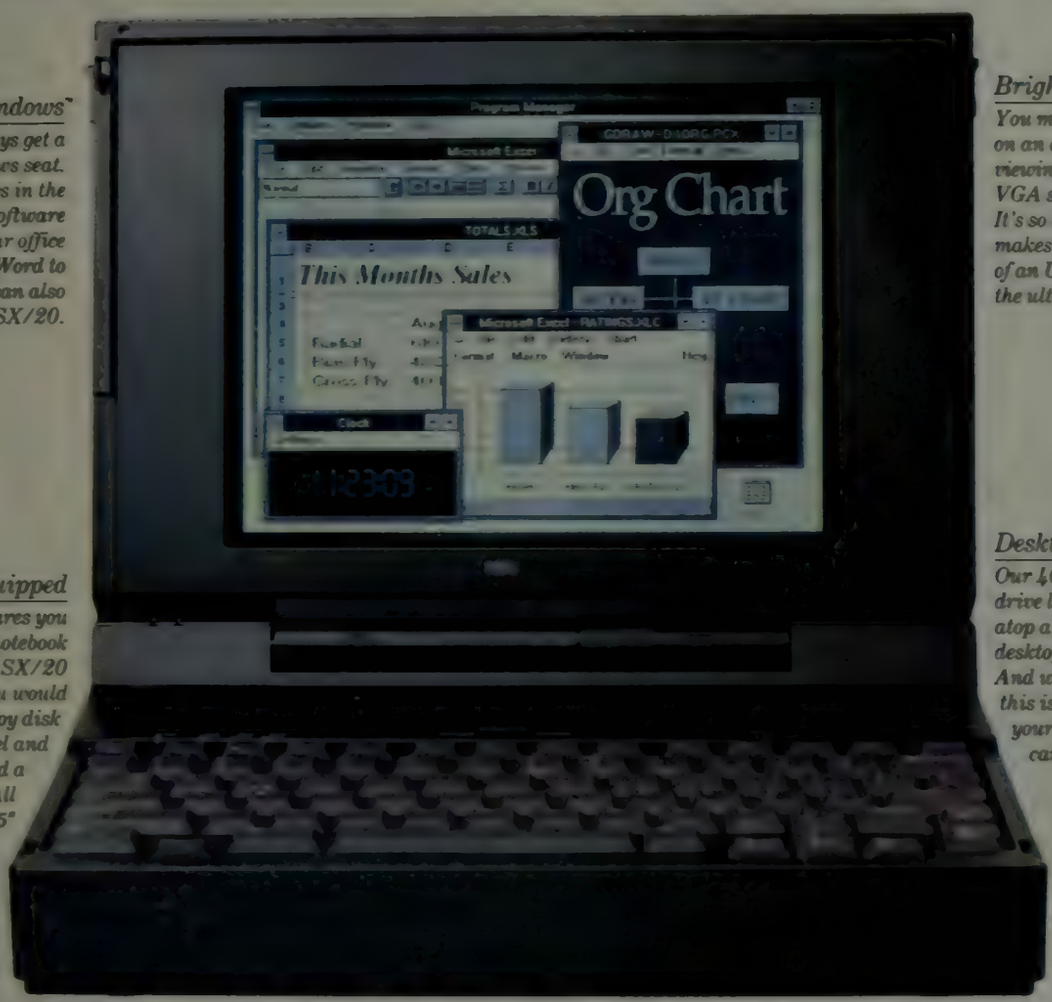

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Everybody suffers from stage fright—not just performing artists. Doctors are only now starting to see it as a treatable medical problem.

High anxiety

By Toddi Gutner

As the performance approached, the man's heart began to pound, his voice quivered, he sweated profusely and he could have sworn there were butterflies in his stomach. An actor's nervous anticipation of a Broadway opening night? No. This is a businessman. The manager of a major Chicago theater company was about to make a quarterly presentation to the board of directors. He just couldn't go on.

Some doctors and psychiatrists claim stage fright such as this man suffered is a treatable disease. Dr. Alice Brandfonbrener, an internist, is director of the Rehabilitation Institute of Chicago's medical program for performing artists. She treated the nervous theater executive. Her clients also include advertising executives and members of the Chicago Symphony Orchestra.

Hal Mayforth

We all get stage fright sometimes. Can we be helped? If the case is severe, maybe. A small percentage of the population—maybe 5%—get uncontrollable symptoms that make it impossible to go on with a performance: sweaty hands, dry throat, squeaky, trembling voice, shaking legs. The problems, a subcategory of what are clinically known as social phobias, have become serious enough to support the small but growing specialty of performing-arts medicine, in which doctors have attempted to treat chronic sufferers with drugs as well as psychotherapy.

The culprit in stage fright, of course, is adrenaline. Too little, and the performer loses his motivation. Too much, and on come the symptoms of performance anxiety. Adrenaline in the bloodstream acts as a stimulant to beta-adrenergic receptors, which are found in the brain and throughout the body. When a molecule of adrenaline latches on to one of these receptors, it causes, among other things, the heart to start beating faster and the lungs to need more oxygen. This anxiety feeds on itself, churning out more adrenaline, which sends the body into an endless cycle of overstimulation.

One way doctors have handled the problem has been with drugs. Traditional anxiety drugs—benzodiazepines like Valium, Xanax and Ativan—can be ineffective because, in addition to relaxing the patient, they also can dull the performance and frequently cause dependency. Buspirone, a new nonbenzodiazepine anti-anxiety drug, is useless in countering high anxiety levels in performers for reasons that doctors don't yet fully understand.

The best drug for handling performance anxiety is propranolol, normally used to treat high blood pressure and heart disease. Propranolol is a beta-blocker—that is, it fools the beta receptor binding site into thinking the drug is adrenaline. Propranolol molecules crowd into the receptor sites, blocking adrenaline from finding a vacant binding site *(see schematic*

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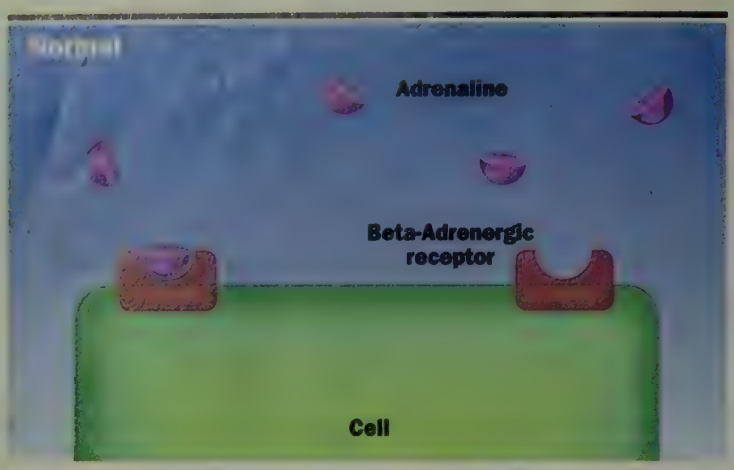

R. Mansfield/Forbes

Adrenaline in the bloodstream stimulates beta-adrenergic receptors, which make the heart beat faster.

Stress produces excess adrenaline, which causes the physical symptoms of performance anxiety.

Beta-blockers crowd into beta-adrenergic receptor sites, keeping out adrenaline molecules.

diagram).

The beauty of beta-blockers is that they do not affect perception, quality of thinking or coordination, and there is no dependency problem. The most widely prescribed brand of propranolol is Inderal, made by Wyeth-Ayerst Laboratories. Other beta-blockers like metoprolol or timolol are sometimes substituted when Inderal fails.

Beta-blockers have been approved by the Food & Drug Administration for hypertension, angina, migraines, heart disease and shaky hands, but not performance anxiety. Yet prescribing these drugs for stage fright is perfectly legal, and physicians who do so point out that the risk is minimal; that's because the dosage taken for performance anxiety is a fraction of the dosage for heart disease patients. Because beta-blockers slow down the heart rate and close down air passages in the lungs, they are inappropriate for people who suffer from a slow heart rate or asthma.

One popular alternative to drugs is biofeedback therapy, which uses all kinds of fancy medical equipment to demonstrate to a patient his level of stress by measuring his heart rate, sweating and muscle tension. Frequently recommended treatments include relaxation techniques like deep breathing exercises and meditation. Says Duncan Clark, a psychiatrist and clinical psychologist at the Univers of Pittsburgh: "We try to cut sh the negative thinking and replace with positive thoughts."

Some performers swear by psych therapy as a cure for stage frig "When a person's performance rep sents his identity, the stakes becor so high that it becomes overwhelmi every time they perform," explai Brandfonbrener, the Chicago-bas internist.

A 34-year-old advertising executi often felt extreme anxiety when g ing client presentations. He soug the help of Michael McKee, a psych ogist at the Cleveland Clinic. turned out that the patient's moth frequently had criticized his father a failure. The patient identified with h father.

"The advertising executive wou hear his mother's negative, critic voice in his mind and wouldn't b able to separate himself from it," e plains McKee.

We don't know whether this a man has landed lots of new accoun as a result of psychotherapy, but w do know that some professional pe formers think stage fright is health Metropolitan Opera soprano Ann Moffo briefly experimented with I deral but discovered it didn't get h "up and ready to go." Moffo prefe to live with her fears. "Every time walk out on stage, I am really petri fied, like most performers," she say "I think performers do best whe nervous because then they do thing in front of the public they wouldn do otherwise."

Many performing artists, lik Moffo, have lately been shying awa from medication. "Inderal is a symp tom modifier, it masks the source o the problem," says Elma Kanefield, psychotherapist at Juilliard, who ha seen a decline in its use over the las few years among patients in her pri vate practice. "For musicians, it ca cause them to distance themselve emotionally from their music."

Oh, hell. Why not just get on you feet and risk making a fool of yourself Imagine you're talking, not to a for mal group, but to a few friends over drink. You might come across as s natural that the audience will lov you. Cancel that prescription, doctor Forget about the couch.

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Asbestos Jr.

COMMENTARY BY PETER HUBER

Peter Huber, a senior fellow of the Manhattan Institute, is the author of the just published *Galileo's Revenge: Junk Science in the Courtroom* (Basic Books).

SKIN CANCER is one thing; a freckle is quite another. Getting a difference like that one straight is what it's going to take to solve the asbestos mess—the mother of all messes in our legal system today.

It entangles a couple of hundred thousand claimants, dozens of leading corporations, almost every major liability insurer and reinsurer, and an army of lawyers far larger than any ever assembled before (FORBES, *Feb. 18*). In late July, after 14 years and five previous rulings the other way, a panel of federal judges finally agreed to consolidate pretrial proceedings for over 26,000 pending claims in a single Philadelphia courtroom. Many more cases have been filed in state courts, which are vying among themselves to grab the asbestos dollars while they last. Two new claims are being filed for each old one that is resolved.

There's no denying that asbestos has caused many devastating injuries. Nonetheless, the 2-for-1 figure—which accounts for the inexorable buildup of unresolved claims and the panicky scramble for money—is as much a result of legal astigmatism as of asbestos itself.

Half of all asbestos claims today involve only "pleural plaques"—freckles on the lung. In themselves, these plaques are harmless. They don't seriously affect lung function. They don't grow. They don't indicate any heightened risk of cancer, except in that they do reflect prior exposure to asbestos.

So why then are so many pleural-plaque lawsuits being filed? In the wonderland of our modern legal system, freckle litigation can go a long way. "Exposure," "impact," "emotional distress" or "cancerphobia" can all be good for cash, even in the absence of any tangible physical injury. Our legal system takes maybe-tomorrow injuries far more seriously than it should.

Plaintiffs' lawyers therefore round up pleural plaque plaintiffs with great energy and enthusiasm; people who had no inkling of any problem before being approached by a lawyer are persuaded their days are numbered afterward. Claims are traded, sold and bartered in packages: One or two mesotheliomas (a serious cancer) plus a dozen or so cases of serious asbestosis (lung impairment) and several dozen pleural plaques are exchanged for a settlement check to be divvied up later. The plaques are fillers: They add a lot of bulk and so help boost payouts considerably.

Of all our many strange legal concoctions, the recent unleashing of distress claims has proved to be one of the most misguided. Legal process itself can now generate an almost endless new supply of legal claims. A judge and jury take a distress claim seriously; the public then infers that the distress is well grounded. The overall level of public anxiety grows, giving judges and juries more reason to take distress claims seriously. The it's-serious-if-you-say-so logic becomes completely circular; litigation itself can transform a spark of anxiety into a conflagration.

This is precisely what has happened at the margins of asbestos litigation—to the point where the margins are swamping everything else, and half or more of the cases filed involve no concrete injury at all.

In every other age, and in every other country, the law has dealt with speculative injury by telling claimants to come back when (and if) the speculation ends and some real injury becomes apparent. This takes care of countless claims. Many just disapp time passes, no injury materializes. fear abates. A few fears turn out t well founded: What gets compens ed then is the actuality of real inj not just its gloomy anticipation.

This is exactly how judges sho be dealing with pleural plaques. T should establish what have come to called "pleural registries," to t note of who has claimed injury of t kind, and then put the claim on ho Wait-and-see is the one certain wa distinguish injury in the lung fr injury that exists only in the mi More important, it's the only way stop the legal system from creati the very injuries—distress, phobia a such—that it claims to be correctin

Do judges have the power to slo roll marginal claims with registries? discussed in a forthcoming article Yale Law Professor Peter Schuc judges have broad power to contr their own dockets. Given the size the asbestos backlog, long delays a inevitable in any event. It's perfect reasonable in these circumstances focus on serious injuries first. And n matter how intense cancerphobia m be, there's no way it can be as serio as cancer itself. Registries would als increase fairness all around: The pac age settlement of serious and trivi claims almost always overpays trivi injuries and underpays serious ones.

We learned the lessons of the Wor War II shipyards years ago: At lea some forms of asbestos can be ver toxic at high exposures. The asbesto mess tying up the courts now consti tutes a second scandal, a mirror imag of the first.

The law indiscriminately certifie "victims" of the tiniest of exposures and compensates "injuries" from th most trivial bodily insults. Year b year, technology grows more adept a measuring exposures and insults fro everything—radon or rat poison bubble gum or botulism, arsenic o asbestos. Thus, we constantly expan our supply of impacts, fears and pho bias. The inevitable result is a 2-for-1 mushrooming of all things legal. It is a cancer in itself, which saps resources, clogs the courts and corrodes public confidence.

Something must be done. The federal consolidation order is a modestly hopeful sign.

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You don't have to be John Gotti to watch what you say on the telephone. There are millions of amateur (and a few professional) eavesdroppers out there monitoring cordless and cellular telephones.

Telephone voyeurs

By William G. Flanagan and David Stix

HOW EASY is it for snoops to eavesdrop on your cordless and cellular telephone conversations? Very.

Think about it. Unlike wired phones, cordless and cellular units transmit radio signals—which can easily be picked up by anyone with a suitable receiver. Says Bob Grove, publisher of *Monitoring Times,* a magazine specializing in shortwave radio and scanner monitoring: "In most metropolitan areas, it's safer to assume that someone is listening than not."

Grove estimates there are 3 million or more eager eavesdroppers out there, mostly amateurs who get a kick out of listening in on private conversations, no matter how mundane. Though technically illegal in most cases, such eavesdropping is almost impossible to stop and is growing fast—in part because it is so easy to do.

Greg Gulch

Scanners—radio receivers that search between two preset frequencies and lock onto any signals—are cheap and can easily pick up cordless phone conversations. And the scanners are easy to modify to cover cellular phone frequencies.

Low-power cordless phones, of which there are some 47 million in use, use some of the same frequency range as walkie-talkies—49 megahertz. Typically, a scanner can pick up signals on this frequency a quarter-mile to half-mile away. So in an urban area full of apartment houses, a snoop armed with a scanner could easily hear hundreds of his neighbors' conversations. "Cordless phones," counsels Tom Kneitel, editor of *Popular Communications,* "are as private as conversing in an elevator."

Cellular phones, of which there are now some 6 million users, are even more vulnerable. The radio signal is much stronger once it is relayed from the transmitter covering each cell site in a system. Armed with a good scanner, anyone can listen in on a cellular call from as far as 100 miles away.

And snoops do more than listen in. Some of them tape what they hear, and swap or sell those tapes. Illegal, yes. But almost impossible to stop.

Remember the famous 1988 cel lar call made by Virginia's then Li tenant Governor (and now Gov nor) L. Douglas Wilder? During call, he dished archrival Sena Charles S. Robb and said he "finished." All the time an eavesdr per taped away. A tape of the conv sation wound up in the possession Robb's office. Transcripts were wi ly distributed.

Popular Communications' Knei says he regularly receives tapes of co versations of the rich and famous fr subscribers. One recently sent hi tape of a conversation recorded b tween Tennessee Senator Albert Go and Clark Clifford. According Kneitel, it was taped 1988 after the Super Tu day primaries, in whi Gore's presidential hop rose. The two discuss campaign strategy, wi Clifford giving insights in what other candidates we probably thinking and wh they would likely do.

The problem is worl wide. In Spain this p spring, for example, Tx Benegas, a highly rank politician in Spain's socia ist party, had the misfo tune of criticizing Felip Gonzalez Marquez, t prime minister of Spain a the head of the party, whi his 20-minute cellular c was being monitored a taped. A radio station a quired the tape, verific Benegas' voice and broadcast i (Benegas survived.)

And these are only amateur eave droppers. A well-equipped profe sional can monitor and record almo every word uttered by a target, r gardless of the phone used—wire cordless or cellular. Imagine what sophisticated pro might get by snoo ing on some investment bankers i the throes of a big takeover. It is eve possible to intercept facsimile me sages sent out over wireless phones.

The cellular phone industry ha long been nervous about eavesdrop ping. Motorola, one of the large manufacturers of cellular equipment sells Private Link, a cellular phon with a built-in scrambler to foil eaves

opping. Total cost: about $600. it to understand what you're saying, the person you're talking with has have a scrambler as well. Sales of ivate Link have not been brisk. ther manufacturers, including GTE, ake add-on scramblers—which can attached to any phone you are ing—for up to $700. They are not g sellers, either.

Apparently, callers either aren't vare of all the ears out there, or don't re. Maybe they should. Have you er given out your credit card num-r over the phone, say to get that ew federal tax decal for your boat? our name, address, telephone num-er, credit card number and expira-on date make up quite a valuable ackage for a larcenous listener.

Warns Tom Kneitel: "Anybody ho talks on a cellular or cordless hone and gives out personal infor-nation might as well get on TV and ive the information out."

Out of the box, most scanners cannot receive cellular frequencies. But it is simple to snip a few wires or add on a device to get those frequencies. The latest scanner from Radio Shack, for example, the PRO-2006 ($379), cuts out the cellular channels. But it takes only seconds to cut a single wire to stop the short circuit. AOR, in Indianapolis, distributes a $399, hand-held scanner that needs no modifications at all to hear cellular bands.

And Uniden America Corp., in Fort Worth, Tex., makes the Bearcat BC200XLT, another hand-held unit ($259) that can be easily modified for cellular snooping. For $2, *Monitoring Times,* published in Brasstown, N.C., provides detailed instructions on how to restore missing frequencies to most scanners from which the cellular channels have been blocked out. *Monitoring Times* has even held seminars covering "Cellular Surveillance Techniques."

Technology is about to make life difficult for the snoops, at least for a while. In three to four years, all cellular signals should be digitized. (In the New York cellular market, McCaw Cellular's LIN Broadcasting has already digitized its system.) Calls will be transmitted in bits, whether it's voice or data, foiling all current-generation scanners.

On the cordless phone front, Motorola is reportedly about to introduce one that encrypts signals during transmission. According to Casey Dworkin, general manager of Personal Technology Research, in Waltham, Mass., the new Motorola phone should cost from $129 to $199 when introduced later this year.

Still, experts point out that it probably won't be long before devices that can make sense of encrypted and digitized signals will be on the shelves at Radio Shack and other stores.

Moral: Always watch what you say over cordless and cellular phones. If Big Brother isn't listening, some other jerk quite possibly is. ■

The end of mother-in-law calls?

YOU MIGHT NOT always be sure who is listening to your phone calls, but at east it's getting easier to know who is calling you.

A new service called Caller ID lets you see the number—and in some cases even the name—of the person calling you. Your phone will also keep a record of who called and the time of the call, whether you answer or not. In some cases as many as 60 numbers can be retained.

First introduced in 1987, the Caller ID service is now available from Bell companies in Delaware, Florida, Georgia, Idaho, Maine, Maryland, Nebraska, New Jersey, Tennessee, Vermont, Virginia, West Virginia and the District of Columbia. (Check with your local phone company.) It should be available in most states by the end of next year. No estimate yet on New York, however.

The cost? Installation of the service runs about $6, and monthly charges for residential use are about the same. You'll also need to buy a digital reader to attach to your phone; this will show the number of the person calling. Cost of the reader: $40 and up. Phones with a digital reader already built in start at about $120.

The spread of Caller ID has raised concern in a number of states that the service violates a caller's right to privacy. (This fear is no doubt greatest among telemarketers and others whose calls would go unanswered.) In response, many states are requiring phone companies to offer free call "blocking" where Caller ID is sold. Blocking lets a caller stop his number from appearing when he or she makes calls.

But with blocking, what's the point of Caller ID? This: Caller ID users can program their phones to reject calls from people who have blocked their numbers from being sent. A caller who has blocked his number from being transmitted hears a recorded message stating that the call can't go through. The phone of the person called won't even ring. With Caller ID you can also usually program your phone to reject calls from up to ten numbers that you have specified.

Here's a sampling of some other value-added services phone companies are offering that will help you screen calls:

Multiring (in New York it's called Ring-Mate): This service gives you up to three different telephone numbers, each with its own distinctive ring, for your phone. That way you could give business associates one number, friends a second and your kids a third. The service, which costs around $5 a month, is now available in 40 states.

Priority ringing: This lets you program your phone so calls from up to ten numbers will have a unique ring. (Available in 23 states, usually for around $4 a month.)

Call trace: By punching in a code on your phone, you can direct the phone company to trace and record the number of the last call you received. Phone company operators won't give you the number, but they'll give it to the police if you're being harassed. Call trace, which costs about $10 to install, is available in 25 states. –D.S. ■

From Hindenburg posters to old bomber jackets to skeletons of old airplanes, aviation memorabilia are flying higher than ever.

Raiders of the lost Waco

By Christie Brown

MANY MEN AND WOMEN born in the first half of this century feel a special attraction to early aviators and their flying machines. The pilots and their planes are mostly long gone, but the romance only grows. And so does the value of the artifacts left behind.

Meet collector Willis Allen Jr., 45, a mortgage banker at Noel Bridge Income Property Co. in San Diego. Allen, who learned how to fly in 1963 in his father's Cessna, started collecting aviation memorabilia 25 years ago. He has since amassed thousands of items, including posters, airplane models, books, propellers, instrument panels and uniforms worn by Japanese, Canadian, German and American aviators—and, of course, planes.

The collection overflows Allen's small home and fills three airplane hangars at Montgomery Field, north of San Diego. The hangars also house his five antique planes. The planes, which Allen takes up on occasion, were manufactured by companies whose names were once as well known as Boeing but have since faded into obscurity. Allen owns a 1929 Waco, a 1930 Stearman, a 1932 Great Lakes, a 1940 Ryan and a 1942 Ryan.

The hangars are bedecked with many of Allen's posters. One advertises service on the *Hindenburg,* the ill-fated hydrogen-filled dirigible that exploded over Lakehurst, N.J. in 1937, killing 35. Another promotes the first-ever air meet in France, in 1909.

When Allen started buying posters in 1970, they typically sold for arou $5 apiece. But prices have climb sharply in the last five years; he recen ly paid $4,500 for a World War poster of German airmen by Ludw Hohlwein, a famed illustrator.

Prices for old propellers have al taken flight. There are 75 wooden aluminum props in Allen's collectio A decade ago they could be bought rural auctions for less than $100 eac But last year at Sotheby's in Londo Allen paid $6,000 for a propeller fro a Spitfire that had fought in the Batt of Britain.

Even pilots' clothing is in deman Allen's prizes include full-lengt leather flying uniforms from Worl Wars I and II, and a dirigible captain overcoat. He also has a sampling what the airmen called blood chit (gooly chits to the Brits). These wer simple swatches of silk or rayon fabri that had messages printed on them i several languages. The promised rewards to civil ians if the airmen were re turned from behind enem lines.

Roy Thurber/SABA

Willis Allen Jr., keeper of the right stuff
The prop is from a 1931 Curtiss Pusher.

But the plums of Allen' flying wardrobe are item used by legendary aces o groups like the Flying Ti gers. One favorite is a leath er jacket worn by an American pilot, part of a group stationed in India in 1944 which flew cargo across the Himalayas into China to supply Chiang Kai-shek's forces. The jacket is emblazoned with the Chinese flag on the back and the American flag inside. Over the right pocket, a dozen little camels are painted on, each representing a successful flight over the "hump" of the Himalayas. (One camel is painted on backward, meaning an aborted flight.) Allen says he was recently offered $2,500 for the jacket, and promptly refused.

Another avid weekend pilot and collector is movie producer and director Tony Bill, whose credits include *The Sting* and *Taxi Driver.* Bill, who owns a Piper Cub as well as a 1946

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Rocky Dyer/SABA

Flying memorabilia from World War II
Leather jacket, goggles, helmet, blood chits and replica .45 automatic.

Swift, focuses his collecting on pre-1940 books on aviation history. His Venice, Calif. office is lined with over 1,000 volumes, including all the books by Charles Lindbergh and Amelia Earhart—all first-edition, and all signed.

Most of the books have cost Bill more time and shoe leather than money. His rarest piece is a signed, four-volume set of aviation knowhow from 1897 to 1910 written by James Means and entitled *The Aeronautical Annual;* Means was an aeronautical engineer, credited by the Wright brothers for much of their knowledge. After years spent searching for the volumes, Bill recently bought them from a San Francisco dealer for about $1,000. But many of his other books have cost a few dollars.

For adventuresome aviation collecting, no one beats Les Whittlesey, a 32-year-old real estate broker in Irvine, Calif., and his father Neil, 57, a retired Air Force and Continental Airlines pilot. Together they have collected the skeletal remains of seven Waco planes built before 1940. Like prehistoric animal carcasses, the 20-foot tubular frames hang from the ceiling of their hangar at the Chino, Calif. airport. The metal and wood wings are upended against the walls.

"I finance the collecting, and my father is the scout," says Les, who flies a 1939 wooden Waco biplane. The Whittleseys have bought some of their plane skeletons from estate sales for up to $10,000; others they have uncovered and carted away free from crash sites.

Five years ago, for example, the pair spent several weekends in the Sierras uncovering a 1930s Waco that had crashed in 1954. After finding it, they lugged the steel frame, pieces of the wings and all the parts they could find to their campsite, a six-hour hike away. "We were the raiders of the lost Waco," Les Whittlesey chuckles.

Warning: The market for aviation collectibles has grown so strong that replicas of everything from old bomber jackets to posters to propellers are now being turned out—in some cas by the original manufacturers.

Willis Allen weeds out fake patch on jackets by shining a black light o them; this picks up modern nylo thread. "There are a lot of shyste out there," he says. Allen advises ine perienced aviation collectors to stic mainly to established dealers, espe cially for such easily faked items a medals and patches. For posters h frequents the Miscellaneous Man, i New Freedom, Pa.

Fortunately, there are many goo aviation museums around the countr where an aspiring collector can get good look at genuine artifacts. Fou of the best are the National Air & Space Museum in Washington, D.C. the Museum of Flight in Seattle Wash.; the Champlin Fighter Muse um in Mesa, Ariz.; and the San Diego Aerospace Museum.

Trade-A Plane magazine is the collecting bible for sales and advertisements of aviation collectibles. It is published three times a month by TAP Publishing, Crossville, Tenn.

Auctions, too, are fairly common. The Santa Monica Museum of Flying at California's Clover Field airport is holding a big one Oct. 5 and 6. The auction will feature classic planes and over 100 lots of aviation memorabilia, including old jackets, blood chits and posters. Among the auction's top items: a 1943 B-17 Flying Fortress (expected to fetch up to $2 million) and a reproduction of a Yakovlev Mark 3, a Soviet fighter used during World War II (expected to go for as much as $700,000).

Neil (left) and Les Whittlesey with a 1939 Waco
One carcass was rescued from the Sierras.

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Ever feel like telling a good customer to shove it? If you're smart, you'll do that before a mirror and then settle down and negotiate.

Letting both sides win

By Mary Beth Grover

THERE CERTAINLY have been moments in your career when you'd have liked to tell your client—or boss—to stuff it. Yielding to the urge may give momentary satisfaction but can easily cost you a good client or a job.

But what should you do when a loudmouthed client threatens to take his business elsewhere unless your boss never sets foot in his office again? That happened to Kevin Daley, formerly a J. Walter Thompson adman and now president of Communispond, a N.Y.-based communications consulting firm. He recalls one former client, a temperamental vice president of marketing, who was threatening to pull his firm's account. "I always wanted to get rid of you guys," the peeved client growled. Says Daley: "I virtually sweated through my suit."

Daley sweated but didn't swing at the man. He absorbed the abuse and made some inquiries. Daley discovered that his own boss had gone over the client's head to complain to the chief executive of the client company about his subordinate's manners. Fuming, the client was taking his anger out on Daley and on the agency itself.

When Daley discovered all this he was able to get his own boss to agree not to visit the client, thus saving a $10 million account, not to mention his own job. The angry client had Daley's boss off his back and Daley had the angry client off his; both sides won something.

Which would you rather have: a moment's satisfaction? Or a good job or good account? If the latter, then you had better learn to negotiate.

What if you're unhappy with your raise? Instead of becoming indignant, sarcastic or downright nasty, ask yourself a question: How can I show my boss how to justify to his boss giving me a better raise? "One of the main problems is people just dump their problem on the boss' table, instead of thinking how they can sol their boss' problems," says Willia Ury, author of *Getting Past No: Ne tiating with Difficult People* (Banta Books, $20).

A higher-paying job offer can be ter your chances. But don't say, "Giv me a bigger raise or I'm outta here, says Dale Carnegie's president, J. Ol ver Crom. "When you put a gun somebody's head, they may say, 'Pu the trigger.' "

Instead, try asking for advice, si cerely explaining that you're in quandary: You have a job offer an need the extra money but enjoy work ing at your present job ever so much

That opens the negotiation. Nov suppose your boss comes back an says he can get you an extra 5 G's bu not the 10 G's the other boss ha offered you. Should you push fo more? Not if you'd like to stay. Warn Daley: "You may ge more, but it's danger ous. The boss'll feel he' being squeezed by a sub ordinate and some sca tissue develops."

If you accept the new offer, the boss has yield ed 5 G's and you've yielded a theoretical 5 G's—once again, both sides win. And that's what makes for success ful negotiation.

The moral is: If you want to win something more tangible than momentary satisfaction, negotiate, don't antagonize your opponent. Telling people off can be self-defeating.

Consider what happened to a certain trucker. When a United Way fundraiser passed out pencils and pledge cards at a 6 a.m. meeting with a group of grumpy truckers, one bearlike man stood up, grasped his pencil and told the fundraiser what he could do with it. The fundraiser calmly replied, "I'll be happy to do whatever you like with that pencil *after* you sign the pledge card." The group cracked up. The tension broke. Everyone pledged some money—including the bear.

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End of a slog

AFTER a year of hard labor, Harcourt Brace Jovanovich, Inc. finally seems to have sold itself to General Cinema Corp., for $1.5 billion. About three-quarters of that would go to HBJ's bondholders, paying them off at an average of 60 cents on the dollar. If 90% of HBJ's bondholders and a majority of its preferred stockholders accept the offer from General Cinema, the deal could go through by November.

That would put John Herrington, chairman of the overleveraged publisher, out of a job. "I'm pleased with that," he says. Herrington, 52, replaced William Jovanovich as chairman in May of 1990; he owns no HBJ stock and is paid as a consultant ($450,000 a year) rather than as a salaried employee.

Herrington is a former Marine who was Ronald Reagan's Secretary of Energy from 1985 to 1989. His government work, he says, prepared him well for handling irate junk bond holders, trade creditors, customers and shareholders. "In a way it's a lot like being in the Cabinet," says Herrington, "dealing with Congress, its 27 oversight committees and lots of big egos. You even have to fight off your own lawyers."

As to HBJ's prospects under General Cinema's ownership, Herrington is upbeat. New reading and mathematics textbooks and other materials in the pipeline, he says, "could blow the competition away."

What's next for Herrington? He hopes to take on a lot more workouts akin to HBJ. "There's an endless supply of companies needing help," says Herrington, eagerly awaiting the call.

Jerry-rigged?

IN THE mid-1980s Jerry Geist, then chairman of Public Service Co. of New Mexico (or PNM), was considered one of the most innovative utility executives in the country. Today he's being sued by his former company and its shareholders for alleged mismanagement and inflation of his tirement benefits.

In the early 1980s Geist was bett on a prolonged southwestern bo He boosted PNM's generating cap ty by some 35%, and diversified utility holding company into real tate and fiberboard manufacturi But the boom fizzled, and PN earnings sank from $133 million 1986 to a $241 million loss in 19 Last year, as PNM lost $10 million $855 million in revenues, Ge stepped down.

Shareholders are now suing PNM mismanagement, and the compan suing Geist and two former exec tives. PNM claims that Geist and t others collected almost $5 million compensation they were not entitl to. The company also wants to void estimated $2 million more in futu payments for Geist and one of t executives. Geist denies all t charges.

Geist has every incentive to ke fighting his old employer. A Ne Mexico court ruled last month th under an indemnification agreeme Geist made with the company 1987, PNM must pay all his legal fe Geist, 57, treats the recent ruling as accidental advantage. "Hey, they i tiated the suit," he says. "If it's t expensive, let them drop it."

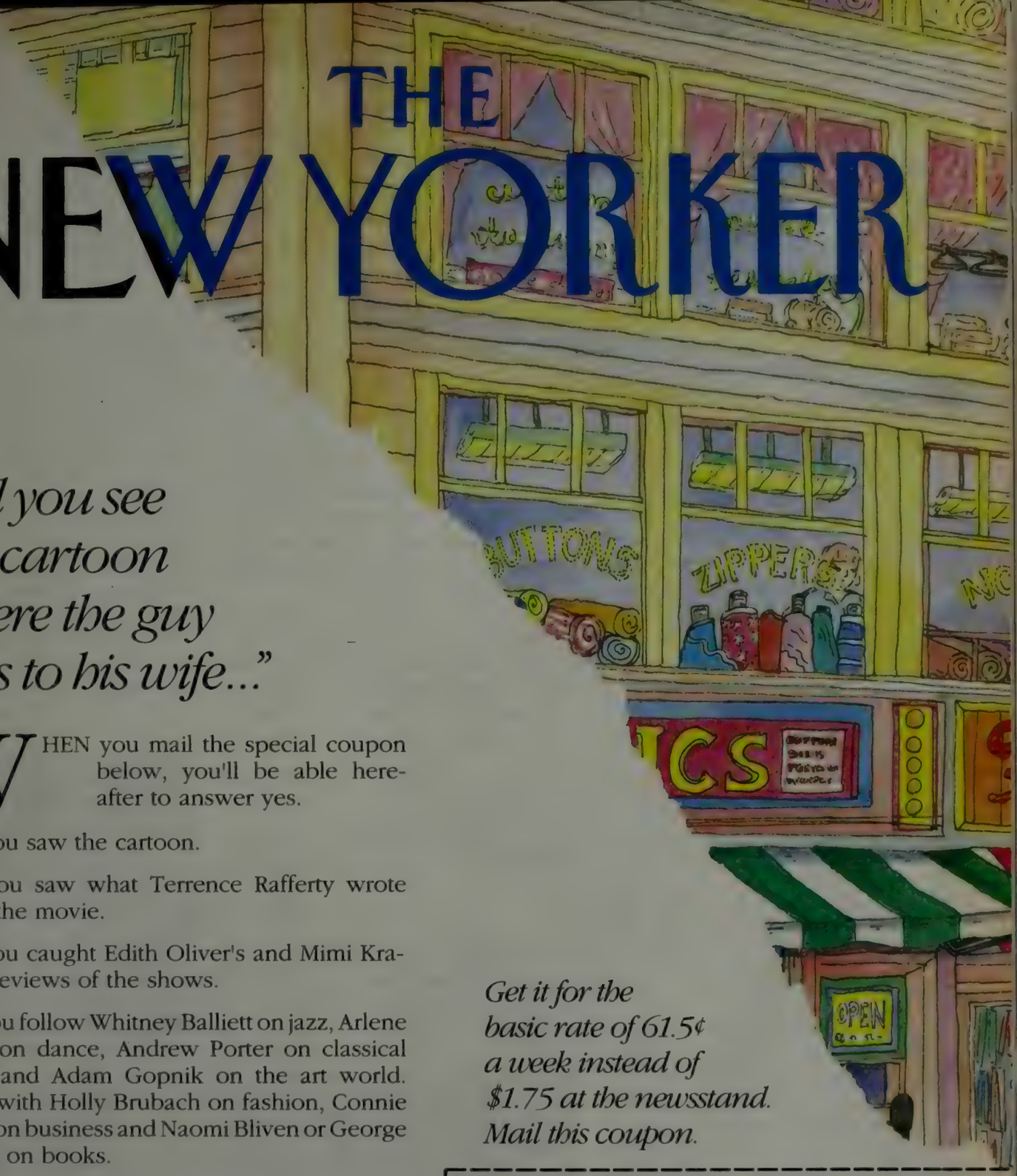
PNM has set aside $4.4 million f legal costs this year, a number th could mushroom if PNM v. Geist fina ly goes to trial. Meanwhile, Geist sa he's consulting for some utilities a other businesses. "Not having to ta full responsibility is a blessing," sa Geist, "an absolute delight."

–JOEL MILLMA

John Herrington of Harcourt Brace Jovanovich
New books "could blow the competition away."

Former utility chairman Jerry Geist
An interesting case of legal aid.

THE NEW YORKER



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Olds by Losh

MICHAEL LOSH, 45, is the man who turned Pontiac around in the mid-1980s. Now, in his third year as general manager of GM's Oldsmobile division, he's trying to fix yet another laggard.

In the second half of the 1980s Oldsmobile was symptomatic of what was wrong with General Motors. The division's designs were uninspired, its power trains wimpy. Sales at Olds crashed from a record 1,066,122 cars in 1985 to just 600,037 in 1989.

Losh, who has a background in mechanical engineering and finance, sums up his plan for reviving Oldsmobile this way: "You just do great product. There is no substitute for great product."

In the two years since GM brass gave Losh Olds to fix, he has redesigned and re-engineered the entire line. Over the last year Oldsmobile has introduced three restyled full-size cars. Losh concedes that one model, the new 98, is targeted at its traditional, older market. "I have no problem with the 98 being your dad or my dad's Oldsmobile. It captures the best of Oldsmobile's past and current qualities." Most of the remaining offerings are aimed at a younger crowd. Losh has high hopes for the Olds 88 and the Achieva, a new compact debuting this fall. The Achieva's main targets: the hot-selling Toyota Camry and Honda Accord.

Is the long slump at Oldsmobile ending? In August Oldsmobile's total sales (autos and light trucks) were up 1%, while the overall market fell 14%. Restyled models account for some of the improvement, but Losh also cites the division's gain in the latest J.D. Power surveys of initial quality and customer satisfaction. Still, he's not promising miracles.

"It took time for us to lose customers," says Losh. "And it's going to take time for us to get them back."

–STEVE KICHEN

Gale force

FREDERICK Gale Ruffner Jr. reads 300 magazines a month, clips newspapers to ribbons and says, "If I had to be marooned on a desert island, I'd like the Manhattan Yellow Pages to read." Of such habits he has made one fortune and is out to make a second.

Ruffner is the Gale in Gale Research Co., the Detroit-based publisher of such page-turners as the *Encyclopedia of Associations* and *Directories in Print*. Gale Research's hundreds of reference books are standard in libraries around the world.

He started the company almost by accident. After World War II, Ruffner earned a B.S. in business at Ohio State and began selling fire-fighting equipment in Detroit. He needed statistics on new buildings and thought trade associations would have the answers. But there was no directory to trade associations. So with around $1,000, Ruffner started Gale Research Co. in 1954. His first book, *Encyclopedia of Associations*, has since sold thousands of copies in 25 editions.

Over the years Ruffner added, among others, *Directories in Print* and *Encyclopedia of Government Advisory Organizations* to his business and then, in 1985, sold Gale Research to Canada's Thomson family *(see s ry, p. 12)* for $66 million in cash. B at age 65 he is back with a n company, Omnigraphics, Inc. It ru on the same principle as Gale R search. Explains Ruffner: "I mig observe something about some n activity or organization. Then a we later I'll read about a second one. the time I'm through there are 3,0 or 4,000, and I have a directory."

Omnigraphics (sales, $3 millio publishes the *1992 National Direc ry of Addresses and Telephone Nu bers*, a 1,395-page tome that li 124,000 companies, governme agencies, think tanks and nonpro groups, plus 110,000 fax number 8,000 toll-free numbers and a natio wide Yellow Pages. Omnigraphi also puts out the *Omni Gazetteer the United States of America*, a 8,500-page mine of geographic dat Ruffner figures Omnigraphics's sal could hit $25 million in five year

–VICKI CONTAVESI

RIGHT:
Oldsmobile General Manager Michael Losh
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BY ERIC S. HARDY

Will the market plunge again this fall as it did in October 1987 and October 1989? Probably not. But nervous investors might want to increase their holdings of quality issues that have high dividend yields. With money market funds paying around 5%, such stocks at least offer some downside protection. (For more on this approach, see p. 188.)

Another way to use yield for protection is with convertible instruments. Eric Ryback, manager of the Lindner Dividend Fund, owns several convertibles. Two of Ryback's favorite convertible preferreds are the Sea Containers $4 (recent price, $50) and the Tosco $4.37 (recently $57.50). Healthy yields help convertibles hold up better in bear markets, and their conversion feature helps them participate in bull markets. But remember: Convertibles' conversion prices are often much higher than the current price of the underlying common.

Special focus

Which are better fundamental plays for investors: stocks selling at low price-to-book values? Or stocks priced inexpensively, relative to earnings? According to Barra, Inc., during the 1970s stocks selling significantly below their book values subsequently performed twice as well as stocks with low price/earnings ratios. But this relationship was reversed during the 1980s, when low-P/E stocks were the place to be. One plausible explanation: In the 1970s high levels of inflation made actual earnings less important than the rising value of underlying assets.

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	-2.1%	20.0%	-3.3%
Sharpe/Barra Growth index[1]	-0.4	29.2	-1.9
Sharpe/Barra Value index[2]	-0.1	9.2	-1.4
Dow Jones industrials	0.0	15.9	-1.5
S&P 500	-0.6	21.4	-1.9
NYSE	-0.4	21.2	-1.7
Nasdaq	-0.3	36.5	-1.8
Amex	0.3	13.8	-7.0
EAFE[3]	0.9	2.0	-22.0
CRB index[4,5]	1.5	-10.9	-21.8
Gold[5]	-2.1	-11.1	-30.9
Yen[5]	-0.6	-3.6	-17.2
Oil[5]	-1.0	-31.0	-47.3

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
Pansophic Systems	15 3/8	45%	$ 0.97	Dean Foods	32 3/8	-34%	$3.02
Harken Energy	7 1/4	35	NA	Deprenyl Research	13	-32	NA
Hondo Oil & Gas	14 7/8	34	NA	Bergen Brunswig	21 3/4	-23	NA
Medimmune	27 1/4	33	0.08	Oregon Steel Mills	27 3/4	-22	2.60
Immune Response	22 1/2	32	-0.32	Continental Bank	12	-22	1.55

The best and worst performing industry factors[8,9]

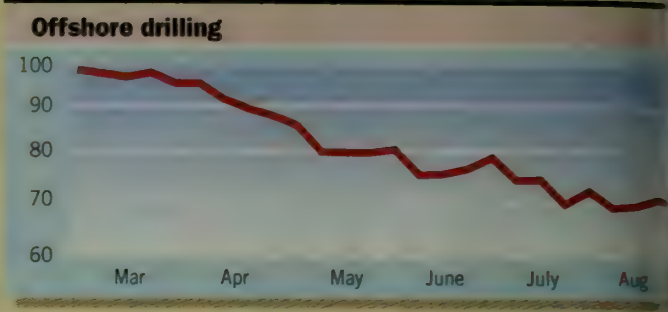
Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Gas utilities	2.4%	5.6%	Thrifts	-6.2%	15.8%
Paper	2.0	15.0	Pollution control	-5.2	-2.8
Railroads, transit	1.9	37.2	Real estate	-4.2	18.7
International oil	1.9	21.3	Retail food	-4.2	9.8
Telephone, telegraph	1.3	9.7	Precious metals	-4.0	-22.7

Note: Data for period ending 9/5/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of a portfolio of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from Lynch, Jones & Ryan. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

BY GILBERT STEEDLEY

Best industry over the last 6 months

Worst industry over the last 6 months



The market loves a turnaround story—or so it seems from a look at Wall Street's favorites. Textile manufacturers, electronics stores and banks show up on Media General's database as the best-performing industries since March. "Investors are anticipating improved business conditions for textiles," says Kay C. Norwood, a Senior Vice President at Charlotte-based Interstates/Johnson Lane.

The recession and a lack of exciting new products drove some consumer electronics retailers into bankruptcy. N ertheless, stocks in this group have climbed 39% average since early March.

Unlike their beleaguered counterparts, Moun states' banks were quietly posting a 38% price gain over last half-year. "These banks are on an upward side of recovery and are already seeing better times," says Tejera, a bank stock analyst at Dain Bosworth in Seat

Leading industries

Textiles

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Aileen	11 5/8	232%	$0.74	16
Delta Woodside Inds	19	114	0.94	20
Unifi	40 3/4	55	2.02	20
Russell	29 1/8	9	1.22	24
Guilford Mills	23 7/8	9	1.58	15

Electronics, retailers and distributors

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Best Buy	23 3/8	183%	$0.75	31
Arrow Electronics	12 1/8	106	0.50	24
Good Guys	27 1/2	76	0.90	31
Fretter	6 3/4	38	0.07	NM
Circuit City Stores	22 5/8	19	1.16	19

Mountian state banks

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Valley Capital	34 3/4	88%	$3.16	11
Affiliated Bankshares Col	22	50	1.07	19
Valley National	28	43	1.33	21
Colorado Natl Bankshares	20 [illegible]	41	0.47	44
Zions Bancorp	48 [illegible]	34	4.75	10

Lagging industries

Offshore Drilling

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Noble Drilling	5 5/8	-24%	$-0.23	NM
Zapata	7/8	-22	-2.62	NM
Energy Service	2 1/2	-13	-0.12	NM
Global Marine	4	-11	-0.14	NM
Diamond Shamrock Offshore	4	3	0.38	11

Airlines

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Continental Airlines Hldg	2 3/8	-49%	$-60.30	NM
USAir	12 1/8	-47	-13.32	NM
Delta Air Lines	65 1/4	-16	-7.73	NM
UAL	132 1/2	-11	-5.38	NM
AMR	57 [illegible]	-6	-3.29	NM

Contracting

Company	Recent price	6-month price change	Latest 12-months EPS	P/E
Dravo	9	-32%	$-1.30	NM
McDermott Intl	19 [illegible]	-28	-1.58	NM
Dycom	10 [illegible]	-25	0.35	31
Kasler	10 [illegible]	-13	0.50	21
Brand Cos	19 [illegible]	8	0.66	29

Industry performance is based on 6-month price change. Industries listed above have a market capitalization of $100 million or more and at least 5 companies. NA: Not available. NM: Not meaningful. All data ending 9/15/91. Source: Media General via Lotus One Source.

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Beth Terrana's Fidelity Equity-Income Fund has rather stodgy objectives, but its performance has been anything but stodgy.

Patience rewarded

By Suzanne L. Oliver

AT 34, Beth Terrana is a successful mutual fund manager. She runs the Equity-Income Fund for Fidelity Investments. Terrana was lucky. She trained under the fabled Peter Lynch.

When Terrana was a Fidelity retailing analyst, Magellan Fund's recently retired Peter Lynch would routinely call her into his office. Consulting his meticulously kept yellow notepad, Lynch would tell Terrana which of her recommendations he had bought, which he hadn't, and which stocks he liked that she had neglected to recommend. Then Lynch would grill the young analyst for details on each company she followed. "He remembered everything," she says.

It was tough, demanding training, but Terrana was an apt and motivated learner. In 1985, after 2½ years at Fidelity, Terrana was given her own fund, Fidelity's brand-new Growth & Income Fund. In the nearly five years that she managed the Growth & Income Fund, she recorded a 15.7% average annual return, versus the Standard & Poor's 500's 11.9%.

Her reward was a bigger fund. Last October Terrana took charge of the $4.2 billion (assets) Fidelity Equity-Income Fund. The fund's objective is to invest in stocks with capital gains potential and dividend yields above the yield of the S&P 500—a combination designed to provide the downside protection of a superior dividend yield without giving up the potential of stock appreciation.

Pursuit of these objectives led T rana to the universe of what she c "the big, the cheap and the ugly' large companies that pay signific dividends but whose stocks under form the market. Not a glamor assignment but a useful one. She p fers stocks with dividend yields in 5% range, which, almost by def tion, means stodgy stocks. For upside kicker she looks for stoc stocks with a potential for chan situations where a new managem or an upturn in an industry cycle m improve a company's prospects.

Terrana works at it. She spen nearly a third of her time visiting wi company managements, whi means lots of plane trips. When n visiting managements she is often the phone with them. "If you ke calling companies, you will find o when something is wrong before e erybody else does," she says, "or yo will be the first to find out wh something is getting better." By th of course, she isn't referring to insi information but to hints, evasions ar the like that signify change.

As an example, last August Terra visited Union Carbide in Danbur Conn. "Home Depot and Wal-Ma probably get hundreds of calls fro investors who want to visit them eve week; Union Carbide doesn't," sa Terrana, who met with the company chief operating and financial office and six division managers.

Terrana was impressed by manage ment's understanding of Carbide problems. She increased her positio in Union Carbide stock, which has 4.8% dividend yield and trades at 1 times trailing 12-month earning The trailing 12-month price/earn ings multiple of the S&P 500 is 20.

Carbide's high yield and chea price should protect against th stock's moving down. For the upside Terrana believes chemical prices hav finished falling, and that Carbide i serious about getting the stock up.

Terrana has built a 1.1 million share position in Nynex Corp., th Equity-Income Fund's second-larg est position. Since the breakup o AT&T in 1984, Nynex has been the laggard among the regional operating companies. But a recent management shakeup in its New York Telephon

By Peter Vaughan

Beth Terrana of Fidelity's Equity-Income Fund

From a portfolio of seemingly sleepy stocks she builds outstanding returns.

sion has led to cost-cutting and ice improvements. Terrana ex- s the company to earn $5.85 this , up from $4.78 a share last year r nonrecurring charges. The k, yielding 6%, sells for 75½.

few investors can master this er straightforward approach to in- ing—buying for yield and waiting a turn in fundamentals—it is be- se the approach requires patience. etimes Terrana must wait three four years before a stock in her tfolio really starts to move. She ed W.R. Grace at the Growth & ome Fund for three years and ght more when she took over the ity-Income Fund. "Eventually ple will see a very good specialty mical and health care company e," Terrana insists. "These are h high-multiple businesses, and stock sells at a substantial discount the market." But only in the last ht months has Grace outper- med the market, for the first time ver a decade.

Terrana's largest position is Kmart, ich has risen this year from 28⅜ to ½ but still sells at only 11 times iling earnings. "I am not saying nart is ever going to be Wal-Mart," plains Terrana. "But it is an improv- g company." She believes the stock uld rise another 50% over the next uple of years. She has also made oney for Equity-Income Fund's lders on the restructuring of Con- l, which Terrana began buying in nuary at $42 a share. Recently the ck was 72¾.

Commercial banks, too, appeal to rrana. She owns positions in Bank- s Trust, First Fidelity, BankAmerica d NCNB, among others. Last May rrana wanted to buy Bank of Bos- n and Shawmut National. Why? cause after Bank of New England as seized, she expected pricing in the ortheast banking market to im- ove. Also their nonperforming ans had stopped rising. But since ither Bank of Boston nor Shawmut aid dividends, she couldn't buy the ocks. Instead she bought the banks' onds, which have since appreciated 4% in value.

While trimming Equity-Income und's portfolio from over 400 stocks 250 (the better to follow each more losely), Terrana regrets throwing out Security Pacific and Chase Manhattan. Both have since run up substantially. Some of the proceeds went into Alcoa, Phelps Dodge and Reynolds Metals, which have increased steadily. Terrana thinks copper and aluminum prices are on the verge of a recovery.

Since Terrana took over the fund, it has underperformed, but not by much, the market's steep climb, with a 32.1% return to the S&P 500's 33.3%. Considering that this fund has rather conservative objectives, that isn't bad. Not bad at all.

The making of a money manager

DO YOU want to be a money manager? Or does your son or daughter? Here's the path Beth Terrana took.

Born in Brooklyn, N.Y., the daughter of a car dealer, she was raised on Long Island and married at 20 to a man now a periodontist. A bright woman, she had just graduated with a business degree from the State University of New York at Binghamton. In a year she landed a modest spot as an assistant portfolio manager at Morgan Guaranty and then moved on to the Putnam Cos. in Boston, where she worked as a fixed-income analyst for two years.

Deciding she needed better credentials and more formal training, she applied to Harvard Business School, was accepted and graduated with the class of 1983. She was 25. Her goal was to work for Fidelity, where "the people seemed emotionally involved with their jobs." But Fidelity wasn't impressed. Says Terrana: "Fidelity is looking for the kid who got $1,000 for his bar mitzvah and bought shares of AT&T. I didn't." What she did have was persistence. In the end Fidelity hired her as a retailing analyst. Then began her real education: 1½ years with Peter Lynch.

What's her success secret? No secret. Just persistence and hard work. Says Terrana: "When I go to a department store, I don't just shop. I look to see what's on the sales racks and guess what profit margins will be that quarter." After dinner, Terrana usually curls up with a good annual report, a favorite pastime of the best money managers. So, don't go into the business if you're thinking 9-to-5.

–S.L.O.

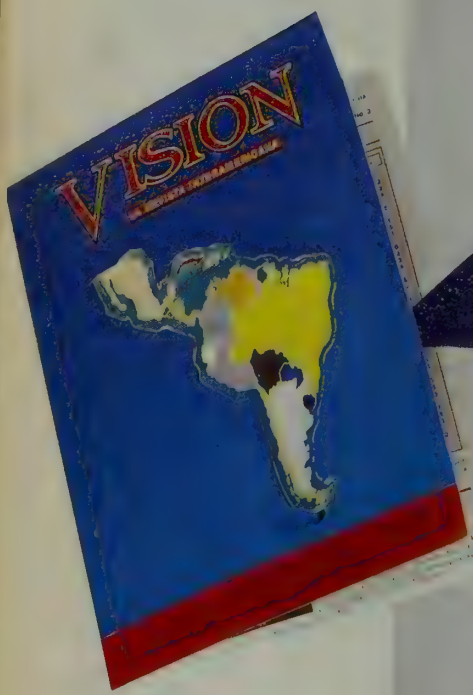
The big, the cheap and the ugly

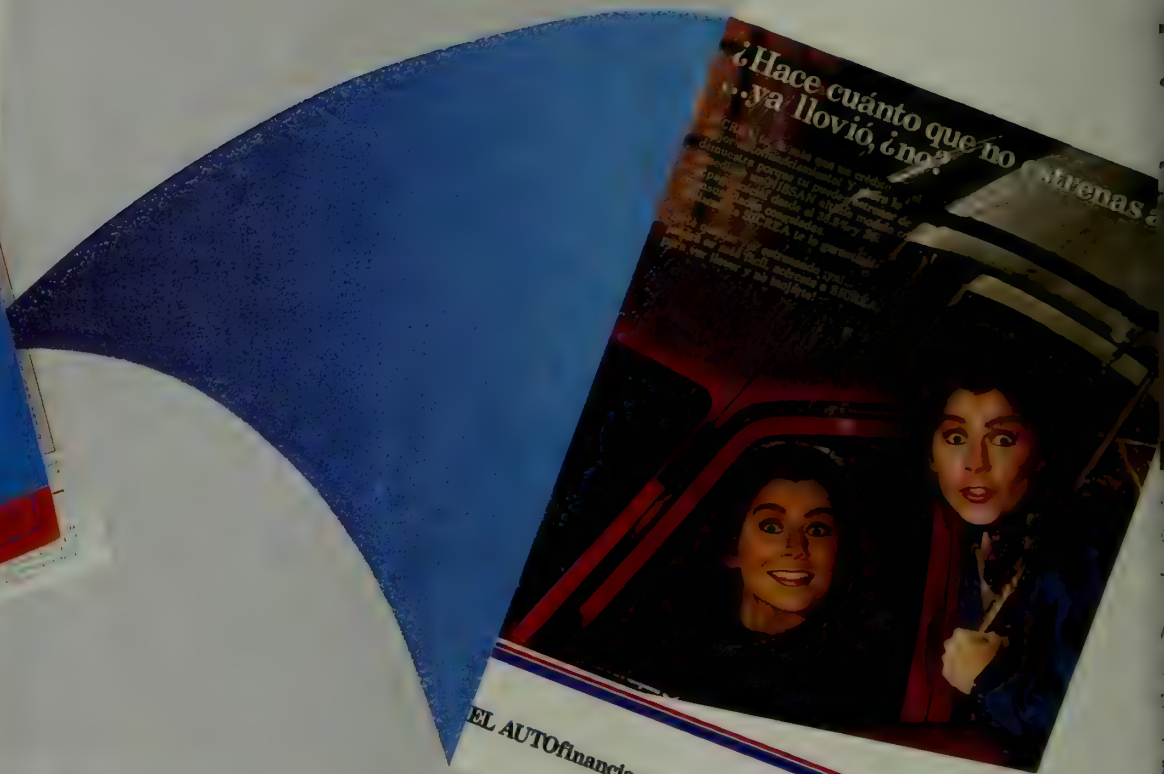
Company	Revenues ($mil)	Recent price	P/E	EPS 1991E	Yield %
Kmart	$32,070	43½	11	$4.04	4.0%
Nynex	13,585	75½	16	5.85	6.0
NCNB	65,285*	37⅞	12	3.99	3.9
IBM	69,018	98¼	13	4.83	4.9
Elf Aquitaine	32,200	32⅞	8	3.00	4.6
WR Grace	6,754	38	16	2.47	3.7
Entergy	3,982	24⅝	10	2.43	4.9
Philip Morris	51,169	72¾	17	4.71	2.9
Royal Dutch Petroleum	114,672	81	11	7.04	5.2
Household International	4,320	59⅛	10	5.96	3.8

*Total assets. *Sources: Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan; Forbes.*

While the S&P 500 trades at 20 times trailing 12-month earnings, Beth Terrana's ten largest positions are in stocks of huge and unloved companies at 17 times or less.

Sicrea/Nissan Knows what it takes to stimulate automobile sales in Mexico





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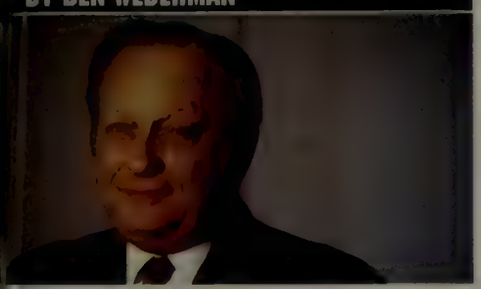
Long-term municipal yields aren't what they once were, but for many investors they are the best game in town.

No pain, no gain

BY BEN WEBERMAN



Ben Weberman is a columnist for FORBES magazine.

MANY HIGH-COUPON municipal issues that came to market during the rate peaks of 1982 and 1983 are becoming callable or are maturing because of their ten-year due dates.

• It's a good time, then, to think about what to do next. But for many investors, it's going to be a kind of painful "sticker shock."

Long-term bond yields for municipals, which had ranged up to 13% a decade ago, are now just above or below 7%. Tax-free money market municipal funds paying 6.2% as recently as December 1990 are paying little more than 4.11% now.

But don't be put off by these current yields. Even though they may seem skimpy in relation to what had been available not long ago, the returns are hefty compared with what else is available. And my own view is that they'll look positively generous over the coming years.

Consider the comparison of a tax-free triple-A-quality 30-year general obligation bond with a 30-year Treasury. The taxable Treasury yields 8%, while the muni yields 6.65%. But take the tax effect for individuals into account, and the return on munis is far superior to those of Treasurys and even many corporate and mortgage obligations, according to Delphis Hanover Corp., of Southbury, Conn., which follows an array of bond investment trends. Assuming a 28% tax bracket, the yield on the long Treasury drops to 5.8%.

For example, the New Jersey Health Care Authority's triple-A-rated insured long bond trades at par, and currently yields 6.6%. That may not seem like much, but it is a lot better than the 4.45% on the one-year triple-A general obligation bond.

If you want a bit more, say 7%, shift to a slightly lower-quality 30-year bond. Take, for instance, the Seattle Washington Metropolitan Sewer Revenue Bond. Its A-1/AA minus-rated bond with a coupon of 6⅞ yields 6.97%. Or the Port Authority of New York & New Jersey's tax-free A-1/AA minus-rated bond with a 6¾ coupon sells at 99⅝ to yield 6.8%.

But keep in mind that lower-quality bonds, like A-rated bonds, though of excellent investment grade, are a greater risk than anything labeled triple A. The additional yield compensates for additional risk.

George D. Friedlander, managing director of fixed income strategy at Smith Barney, Harris Upham, feels that new purchases in high-quality issues in the 12-to-15-year maturity range are the most attractive right now. The yield curve flattens after 15 years, and only a little additional annual return is achieved by extending to the longer maturity. Fifteen-year triple A maturities pay 6.4%, against 6.5% for the 20-year, and 6.65% for the 30-year bonds, the Delphis Hanover data show.

For example, the triple-A rated Jefferson Louisiana Sales Tax Revenue 6¾s of 2006 are priced at $100.75, with a yield to first call (2002) at 6.65%. The Erie Pennsylvania Lease Revenue Bond, due 2002, with a coupon of 6.5%, is priced similarly at $100.75. Yield to call (2001) of this triple-A-rated bond is only slightly less, at 6.5%.

Stick to higher-quality issues, particularly because there's just not that much difference in yield between those issues at the top of the quality list and those near the lower end of the investment grade scale. For example, while you can get 7% on a double-A bond, you pick up only 7.5% at the triple-B level.

On Feb. 14, Friedlander says, the yield differential between triple-A and triple-B obligations was 80 basis points. Now it is only 50 basis points. At various times in the past, the spread has been well over 100 basis points.

Why the narrowing spread? The big appetite for tax-free income, which has pressed individuals and funds to take a step down in quality in order to pick up a few more basis points of return.

Another consideration is to choose revenue bonds rather than general obligations backed by full faith and taxing power. If the revenue source is used to pay for a needed service, it won't be cut off. Revenue bonds offer better advantages than do general obligations, Friedlander says. Their yields are closer to the triple-A scale.

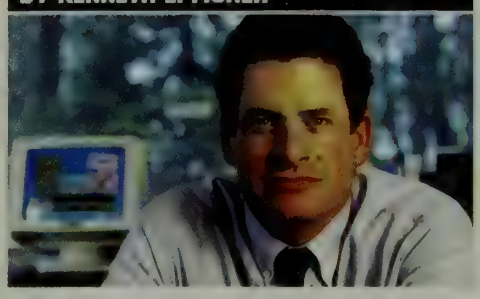
Friedlander notes essential service long-term, tax-free electric utility bonds like those issued by Intermountain Power Authority or Los Angeles Department of Water & Power have impeccable credit quality. The IPA's 7.2% double-A-rated bonds are currently trading at a slight premium at $101.20, and yield 7% to maturity. LA Dewaps, with a similar coupon and rating, are priced at $103.80, to yield 6.75%.

As always, the best solution for investors who don't want to bother with all the selection fuss and high transaction cost is to buy packaged products like mutual funds and unit investment trusts. The Dreyfus Tax-Exempt Bond Fund yields 6.42%. Van Kampen Merritt's Insured Municipal Income Trust Series 273 triple-A-rated long-term bonds currently yield 6.47%. ■

The farther east one goes, the more bears one meets. I'm a Californian.

Geographical biases

BY KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: *The Wall Street Waltz* and *Super Stocks*.

AFTER BEING BULLISH for 11 straight months, I am especially watchful for bear market warnings.

The scariest evidence I see seems virtually unnoticed: Yield curves are now inverted outside the U.S. (meaning short-term rates are higher than long-term rates). And in almost all non-English-speaking nations, all rates have nudged higher and higher for months. The duo of inverted yield curves and rising rates has historically warned of oncoming bear markets. Pay attention. If foreign stocks sag, it will be hard for ours to do well.

And here's a truly macabre note: A bright young man named Holger Berndt points out his murder rate indicator has an amazingly uncanny 30-year forecasting record as a reverse barometer of stock action. I've checked. It's scary.

Using FBI data on murders per 100,000 Americans, Berndt notes: The current peak of 9.5 murders per 100,000 population rivals slightly higher peaks in 1973-74 and 1980—times when stocks peaked.

Am I joking? Not entirely. This is as valid as the much-watched Super Bowl indicator, maybe more so. And right now it suggests 1991 could end badly for the markets.

However, there are more hopeful straws in the wind than scary ones. Note that the economic recovery started without much monetary pump priming by the Federal Reserve. Few folks notice that M2, the Fed's top money supply measure, has grown at less than 3% annually for two years. With inflation running nicely above that, it leaves Alan Greenspan lots of room to loosen the monetary noose and drop interest rates. And facing 1992's elections, that would be an awfully considerate way for Alan to thank President Bush for reappointing him recently, while helping set the stage to be reaffirmed once again, by George, in 1994.

Bears see little economic rebound. And it's true, of course, that second-quarter GNP was recently revised downward. Yet home resales have rebounded to prerecession levels. New factory orders are higher than almost anyone's forecasts. The July boost in consumer durable orders was the largest percentage gain in 21 years.

The Purchasing Managers' Index, which forecast the recession so well, is now rising and is above out-of-recession levels for the first time in 18 months. And, though fewer folks pay heed to the leading economic indicator series these days, it's bullish.

Noteworthy news from my backyard: Most bears have long expected California's high real estate prices to implode—as northeastern real estate did. In the recession, prices dropped some, volume dried up and the inventory of homes for sale mushroomed—warning of more price drops to come. But from what I see out here, prices are surging once again, to new highs. Prices of recently completed sales have boggled my mind—and I wasn't bearish on California. My home state is often a trendsetter, so real estate may do better nationally than folk expect. Bullish.

While on regionality, I see a heav geographical warp I've not noted be fore when I talk to money manager journalists and business leaders—on with contrarian meaning. The farthe north and east you go, the more rock solid pessimism people have. In Bo ton and New York gloom and doom spread on thick. The moods of folks chat with there range from deep, dar depressionism to simple disbelief i the possibility of any bright future.

Northeasterners have been hit by real estate collapse, failed insuranc firms and banks, brokerage scandal and fear of a banking crisis. They als suffer from disastrous politics and cit ies that have been deteriorating steadily for decades. Out here in th West, these things loom less large. So optimism per capita increases in a straight line as I talk west and south In New York folks think I'm Pollyan naish. Maybe. After all, I'm a Califor nian. Or it may be that most of Wal Street is too bearish.

I still think stocks will continue to do nicely well into 1993. The Dow and S&P 500 may do less well, but they are dominated by a very few, very big and mostly growth-oriented stocks and aren't too reflective of America's average stock. The smaller and less growth oriented stocks should lead the market through 1993. Measure the overall market's progress by watching that of the Value Line Index (the "arithmetic" one, not the geometric one).

Stocks I expect to shine include *Western Publishing* (10, o-t-c), the leading vendor of children's books. It sells at book value, about 9 times my expectation for postrecession earnings, and has virtually no debt. It soon should revisit the mid-20s, where it traded two years ago.

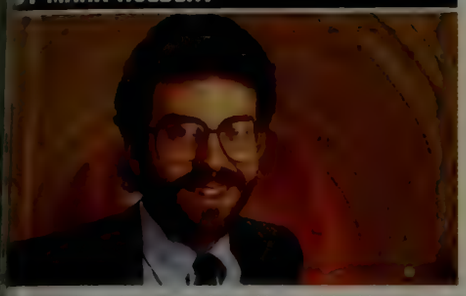
Southdown (16), America's third-largest cement firm, sells at half its 1990 peak—actually as low as it was in 1982. It will lose money this year, but that's why it's cheap—about 85% of book value and 8 times postrecession earnings.

Gitano (19), the apparel firm, sells at one-third of revenue, 125% of book and 8 times earnings, all of which should be aided by its current very hot ad campaign. ■

a newsletter makes extravagant claims or its performance, watch out. It is probably exaggerating—and possibly lying.

Lies and near lies

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

YOU COME TO EXPECT a little fudging in the blurbs used by movie distributors in their advertising. Snippets of praise are extracted from negative reviews and presented as the truth. But when does a blurb cross the line from exaggeration to a lie?

I thought about this several days ago on coming across an advertisement for Jay Schabacker's *Mutual Fund Investing*. The ad contained this headline: "Rated #1 By Hulbert." This blurb is not an exaggeration; it is not a rating taken out of context. It is a fabrication. *Mutual Fund Investing* is not now, nor has it ever been, rated number one by my digest.

To justify its phony claim, Schabacker's *Mutual Fund Investing* letter reproduces the Hulbert ratings for a number of investment letters that did worse than *Mutual Fund Investing* and then showed that, compared with these, *Mutual Fund Investing* is number one. Schabacker simply ignored all letters that did better than his. This is roughly akin to Michael Dukakis declaring that he finished first in the 1988 presidential election by comparing his tally with those of the Libertarian and Socialist parties and just forgetting about George Bush.

In fact, *Mutual Fund Investing*'s performance ranks near the bottom. Among the 14 mutual fund letters I have tracked since the beginning of 1986, *Mutual Fund Investing* is in 12th place.

What does Schabacker have to say for himself? He rationalizes his claim of being top-rated by arguing that the services he ignored are not as well known as those he did compare himself with. Oh yeah? Among the letters his ad ignored are *Investors Intelligence* (which has been published for 30 years longer than Schabacker's), Stan Weinstein's *Professional Tape Reader*, Peter Eliades' *Stockmarket Cycles*, Paul Merriman's *Fund Exchange*, *Professional Timing Service*, *Fidelity Monitor*, *Mutual Fund Strategist*, and the *Peter Dag Investment Letter*. Several of these are much better known than some of the services Schabacker did compare himself with, such as *Margo's Market Monitor* and *Your Window into the Future*.

This isn't the first time Schabacker has taken liberties with the truth. Another advertisement several years ago pointed out—correctly—that his father was R.W. Schabacker, the famous financial editor of FORBES in the 1930s. It added that his uncle was Robert D. Edwards (who with John Magee wrote the classic *Technical Analysis of Stock Market Trends*). From this limited basis in fact, this advertising soared off into the fanciful. It said "the ablest pupil either of these Wall Street giants ever taught was R.W. Schabacker's own son, Jay." Remarkable. Jay was born two months after his father's death.

Unfortunately, Schabacker's outrageous advertising is hardly unique. His trick of comparing himself only with letters that have done less well turns out to be quite common. Several years ago, for example, promotional literature for Donoghue's *Moneyletter* claimed that it was among the top finishers for 1987 when compared with those mutual fund letters that editor William Donoghue considered to be his "real competition." Of course, virtually all of those fund letters that had done better than Donoghue's weren't considered to be his "real competition."

Another common trick is to focus on one short-term period while ignoring dismal long-term results. For example, Joe Granville's promotional literature currently is claiming that the *Granville Market Letter* is "in the uncontested #1 spot according to the *Hulbert Financial Digest*." True? Only for year-to-date performance. Granville's letter remains in the uncontested last place among all letters I've tracked since 1980.

While not all market letters' advertisements are misleading, so many of them are that you can protect yourself only by adopting a skeptical attitude toward all of them. Newsletter publishers often confess to me privately that while they realize they are making unrealistic performance claims, they are forced to do so out of economic necessity. Realistic claims don't excite very many to subscribe.

All of which tells me that there must be a lot of investors out there with no sense of reality. While they think investment miracles are possible, they overlook that over the last decade the bull market has averaged just a 15%-a-year total return—and even this is freakishly high. Over the longer term, stocks' return has been closer to 10%. This should be your starting point for expectations in the 1990s. With a smart adviser, you might do a bit better, perhaps as much as 15%.

The top-performing letter over the last 11 years—the *Zweig Forecast*—achieved a 19% annualized return. Long-term returns that beat the market by more than four points a year are so rare that for all practical purposes we can declare them unsustainable. You as an investor will be setting yourself up for disappointment and possibly heavy losses if you trust advisers who claim they can consistently beat the market by huge margins. Peter Lynch was one of the smartest money managers of the past decade, and he was smart enough to quit while he was still well ahead of the market. He certainly knew he couldn't do it forever. ■

In bear markets, it's smart to remind yourself that the world isn't coming to an end. In bull markets, it's smart to remind yourself that trees don't grow to the sky.

When dumb is smart

BY FREDERICK E. ROWE JR.

Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

IN 1965 Steve McQueen starred in *The Cincinnati Kid,* the classic poker movie of all time. This movie has so far saved me from becoming ultrabroke or ultrarich. The climactic scene in the movie involves a showdown hand of five-card stud between Steve McQueen ("The Kid") and Edward G. Robinson ("The Man").

This scene made an indelible impression on me during my school years. With three cards dealt, Robinson bets heavily on a possible flush, a stupid bet if there ever were one, particularly since McQueen has a pair showing. The pot gets bigger and bigger. McQueen ends up with a full house—aces over tens—which loses to Robinson's straight flush. When Robinson turns his hole card, the jack of diamonds, McQueen looks as though he is going to throw up. He has been wiped out.

The movie soundtrack is throbbing. Sweat is dripping down McQueen's face, as he stares at Robinson's hand in disbelief.

"That's down to what it's all about, Kid," says Robinson. "Making the wrong move at the right time."

"Like life, I guess," says McQueen.

Actually, it is a lot like the stock market in 1991.

A poker player risks his money without knowing the cards that he will draw and without knowing the cards that his opponent will draw. He anticipates and judges the odds. Similarly, a stock market investor risks his money without knowing how the individual companies he owns will perform and without knowing the direction that stocks in general will move or the course that the economy will take. He may kid himself that he knows the future with some certainty, but in his heart he knows the future is unseeable.

When the stock market took off in January, stocks were expensive relative to traditional valuation yardsticks: book value, price/earnings ratios and dividends. The odds, therefore, did not seem to favor a fabulous, new bull market. Further, it seemed to follow that since the prices of real estate, art, stocks, private companies, etc., had risen with the reckless expansion of private credit in the 1980s, that they would continue to fall with the contraction of private credit in the 1990s. In fact, with the exception of the stock market, those other entities have continued to decline in value.

Finally, the consumer, whose aggressive spending had sustained the economy since 1982, did not appear to be in a position to help out. Flat to declining real incomes, a low savings rate and high debt levels seemed to indicate that the engine of prosperity had finally worn down.

So all the odds seemed to point to a lower stock market.

Nevertheless, the stock market has made a huge and, I think, long-odds bet. Nearly all of the major stock market indexes have made record highs. The stock market is the betting mechanism. Are the winning cards really there? Has the stock market made the wrong move at the right time? Have stock market players in effect bet heavily on a three-card flush and ended up with a straight flush?

Maybe. But a writer friend confronts my financial skepticism as follows: "Shad, you just don't get it, do you? With Desert Storm and with the collapse of Russian communism, this is *the* auspicious historical moment for world capitalism. The U.S is now the world's unquestioned economic and military leader. Can you imagine what it's going to be like when all those Russians start buying American goods? Yes, the stock market is high but it is going much, much higher."

It seems to me that people like me, who failed to embrace the 1991 bull market, made an intelligent error, as opposed to an unintelligent error. That is a very small consolation. Steve McQueen made the intelligent bet in a big-time, no-limit poker game. He was wiped out.

But unlike the poker game in the movie, the stock market game never ends. So where do we go from here? Does the exciting new era for world capitalism justify valuation levels that in the past have been only briefly exceeded, invariably to be followed by brutal declines? Current stock market valuations approximate those of 1929, 1937, 1973 and 1987. Each of these periods of stock market euphoria was rewarded with a rude awakening—a market drop of frightening proportions.

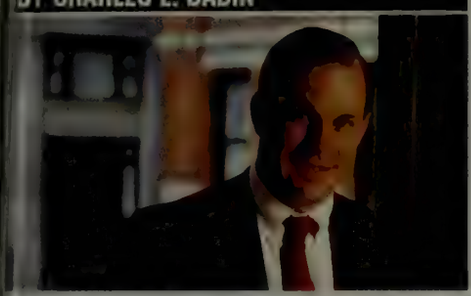
Is it different this time? Can we forget federal and local deficits that seem only to grow? Can we forget that consumers really are tapped out? Can we ignore the fact that private credit continues to contract as public credit continues to expand? I don't think so.

In a bear market, it is helpful for investors to remind themselves that the world generally does not come to an end. Similarly, in a bull market, when all the talk is of a marvelous new era, it is also helpful for investors to remind themselves of that age-old fact: Trees don't grow to the skies. This one won't either. ■

IBM stock has managed to decline sharply in a rising market. But don't write the company off.

Bellwether? Or bargain?

BY CHARLES E. BABIN



Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm in Boston.

Is IBM a bellwether stock? Is the weakness in IBM a danger sign for the market? Over the last six months IBM's stock price has dropped nearly 25%. On the very day the Dow closed at an alltime high of 3055 (Aug. 28), the stock closed at $94.50—less than 3 points above its 52-week low.

Fortunately, the case for IBM as a bellwether—literally, a belled sheep that leads the flock—is unconvincing. To function as a bellwether, IBM's share price ought to demonstrate an ability to lead the market. Statistical testing fails to identify any such relationship. What's more, IBM's share price has moved in the opposite direction from the Dow 36% of the time on a quarterly basis since 1979. So despite its being one of 30 stocks in the Dow Jones industrial average, investors should draw no inferences on the market from IBM's recent drubbing.

A better explanation of IBM's weak market performance is in a recent FORBES interview *(Aug. 19)* with Peter F. Drucker, that keen student of American big business. Drucker said: "Big companies go through a rhythm. In the IBM growth curve, one pioneer emerged to dominate the field. When the company becomes mature, it has to fight the competition on every front—software, PCs, etc." In Drucker's view, adapting to today's saturated computer market means IBM "is going to be on the defense for ten years," much like General Electric in the Twenties and General Motors today.

This says to me that IBM is now a cyclical stock, not a bellwether. With cyclical stocks "buy and hold" can prove costly. IBM is a case in point. At $95, the stock is selling at 1982 prices. But remember: Cyclical stocks are just that: cyclical. Bought at the right time and the right price, they can make you a lot of money. There's reason to believe now is just such an occasion.

IBM is not going bust. The dividend, which is probably safe, provides a current yield in excess of 5%—close to the yield of so-called growth utilities and competitive with today's money market rates.

And its basic business could be close to a turn because prospects for the economy are bright. There's a reliable, unbiased way to anticipate the inflection points in the economy, swings that are vital to cyclical issues, and you can anticipate these swings by monitoring three-month Treasury bill yields. In fact, since 1980 some 85% of the annual fluctuation in GNP was explained by credit market movements with a one-year lead time.

As I discussed in my July 8 column, interest rates have dropped almost 30% over the last year and roughly 40% from their March 1989 peak (9.10%). This dramatically improved interest rate environment should have a big beneficial impact on the economy and, consequently, on the computer industry. If history is any guide, 1992's real GNP growth rate could exceed 4%, far better than the anemic economy envisioned by consensus thinkers (2.7%), and welcome news for an ailing IBM.

Interest rates can also play a role in estimating IBM's outlook directly. For June-December investment periods since 1970, some 40% of the fluctuation in IBM's stock price can be explained by interest rate movements. IBM, in short, is an interest-sensitive stock and is becoming more so. Measured from 1980, changes in interest rates capture about 75% of IBM's stock price variation.

The table lists possible appreciation outcomes for IBM over the balance of 1991 as cast from this interest rate minimodel. The bottom line is immediately apparent. Even without considering its yield support, IBM's prognosis is encouraging. At any price under $100, the odds favor a significant rebound for the stock over the next six months or so. A 20% move is not out of the realm of possibility.

IBM is looking good on a fundamental basis, too. According to David Korus, a securities analyst at Kidder, Peabody, the company is just beginning to ship the high end of its new-generation mainframe product. (Mainframes account for roughly one-half of IBM's revenues and proved to be its Achilles' heel during the current economic slump.) This, in combination with a better business climate and other product introductions, could produce earnings per share on the order of $9.50 in 1992—up sharply from this year's estimate of $4.35.

For investors willing to buck prevailing sentiment, the reward could be substantial. Now is not the time to sour on the stock. Remember: no guts, no glory.

Why IBM's a buy

IBM appreciation* more than	Probability of outcome
0%	95%
5	90
10	85
20	65

*By Dec. 31.

IBM has become a cyclical stock. With the business cycle improving, IBM looks a likely prospect for a turnaround.

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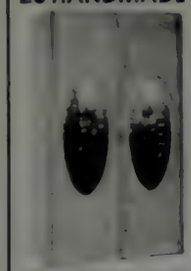

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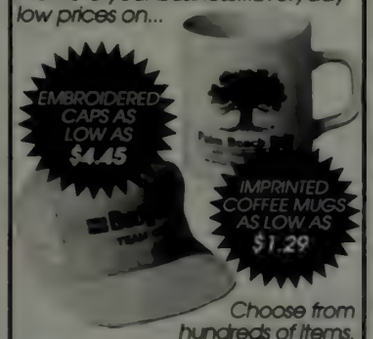

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The fully invested bears

THE SKEPTICS thought Jimmy Connors was over the hill, but he showed 'em. Connors, 39, beat a succession of younger players at this year's U.S. Open before succumbing to 21-year-old Jim Courier in the semifinals.

Connors' run reminds technical analyst Justin Mamis, of New York's Gordon Capital, of the stock market today. For months the bears have been saying the market was riding for a fall. But just like Connors, the market has shown a remarkable ability to rally. The result, says Mamis, is that it appears to have made believers of many a skeptic. He calls them "fully invested bears," who at this point are actually pulling for a continued rally.

Here's how Mamis explains the market's current strength:

"Nowadays," he says, "the party line goes: 'I see the same problems you do, but it hasn't paid to sell; stocks keep coming back from weakness. . . . This sideways pattern is the worst case—the market can go down 200 points anytime it wants to, but I'm going to be a buyer.' "

This is not a good sign for the market. "Bought-up-ness," Mamis goes on, "accompanies tops; buying dips help make tops. But more important than those traditional patterns of behavior is the overconfidence. Even when a stock's chart has been warning about its weakness and/or its inability to rally while the averages were doing so, such comfortableness lulls—so that 'unexpected' bad news leads to abrupt and collective selling." A few recent cases where this happened: Browning-Ferris and the Limited, both of which lost several points on poor news reports in early September.

Mamis advises selling stocks that didn't participate in the 200-point post-Soviet-coup rebound. Examples: AMR, UAL, Delta, Honeywell, E-Systems, Loral and Scientific-Atlanta.

Also sell if a stock has temporarily rebounded but you still don't think it is acting well. Among Mamis' examples: Pitney Bowes, Procter & Gamble, Georgia-Pacific, Upjohn, American Brands, J.C. Penney, Kmart, Johnson & Johnson, Lockheed, Raytheon, National Medical Enterprises, Humana, Champion International, McDonald's, Westinghouse, Melville, PepsiCo, Control Data, Comdisco, Digital Equipment, IBM, Wells Fargo, Campbell Soup, Tandem Computers and U.S. Surgical.

Jimmy Connors at the U.S. Open
He rallied but finally lost. A metaphor for the market?

Just because the market, like Connors, has lately done well, Mamis concludes, doesn't mean it is making a fresh move upward. "Eventually came sloppiness, slowing a step as points were lost, and too much carefulness instead of rejuvenation." Mamis is talking about Connors but describing the stock market.

Defensible defense play

INTERESTED IN a company whose backlog is roughly two years' worth of revenues? Then you may like $6.1 billion (estimated 1991 sales) Martin Marietta Corp.

The defense contractor? Yes, but analyst Charles Neuhauser of Baltimore's Investment Counselors of Maryland thinks Bethesda, Md.-based Martin will hold up well as defense spending falls because it is strong in defense electronics. As Saddam Hussein unwittingly helped prove, electronics is an area in which the Pentagon can get a lot of results for every buck it spends. Martin Marietta produces the Lantirn night vision system and does computer simulation work for the SDI program.

Martin also manufactures the Patriot missile, which anchored Allied air defenses during the Gulf war; the space shuttle's external fuel tanks; and the Titan IV rocket, to be used by the Air Force for the launch of unmanned satellites through at least 1995.

Another plus: Neuhauser estimat 1991 net income plus depreciation $558 million, or $11.50 a shar Meanwhile, capital spending for t year should run at less than $5 a shar Such excess cash flow shows how t company has been able to repurcha nearly 5 million shares during the la two years and will probably buy ba more. (There are currently 48.8 m lion shares outstanding.)

Assuming no shares bought bac Neuhauser estimates the compan will report net income of $7.10 share this year and $7.75 in 199 With the stock recently at 53⅝, ju seven times next year's prospecti earnings, he notes that Martin's P/ relative to the S&P 500, is at th bottom of its ten-year average rang Neuhauser thinks the stock will go t 75 over the next 12 to 18 months.

Beating the big guys

AIRBORNE FREIGHT CORP., based i Seattle, runs Airborne Express, a express delivery service throughou the U.S. The company operates abou 65 aircraft and has its own airport hu and sorting center in Wilmington Ohio. With likely 1991 sales of $1 billion, Airborne is up against large formidable competitors Federal Ex press and United Parcel Service. Ye Airborne's shipments rose more tha 20% during the first half of 1991 versus estimated growth of 5% an 10% for Fed Ex and UPS, respectively

Why is Airborne gaining marke share? Analyst James Parker of Atlan ta's Robinson-Humphrey points t its low costs, relatively low prices an consistently high level of service.

Airborne has lately been bolsterin its balance sheet to support an ambi tious capital program. (Parker esti mates capital spending will total $48 million over this year and next.) I August 1990 the company raised al most $70 million through the sale o nearly 2.9 million new shares a $24.75 apiece. And last month it sold $100 million of 6¾% subordinate convertible debentures (they're con vertible at $35.50 per share).

Near term, profits have been hurt by the recession. Margins also have been squeezed because Airborne has increased its share of the second-day shipment business, on which the

ld," or revenue per shipment, is er than on next-day service. Parker imates 1991 earnings at $1.74 per re, about flat with 1990. But he ects a 32% gain, to $2.30, in 1992, d 15% to 20% compound growth ough the mid-1990s.

Although the stock—recent NYSE ice of 28¼—is already up some 70% is year, Parker thinks it could rise other 40% or so, to around 40, over e next 12 months. (There are 19.3 illion shares outstanding.)

Not credible speculation

AMONG major companies, one of the ore disappointing stocks in recent ars has been that of TRW Inc., which rives roughly 90% of sales and prof- s from space, defense and automo- ve products, including airbags. Since 988, shares of the Cleveland-based onglomerate—estimated 1991 sales f $7.9 billion—have mainly been tuck between 40 and 50. Recent YSE price: 43¼. Yield: 4.2%.

Lately, though, there has been peculation that TRW intends to sell its $390 million (revenues) credit re- porting business. The speculation be- gan on Aug. 23, when Joseph Gor- man, TRW's chairman, was quoted as saying the company was reviewing the performance of the credit reporting operation. That same day, the compa- ny stated it had no plans to sell the business "at this time."

There's no question TRW would rid itself of a big headache if it sold credit reporting. Several states are suing the company over alleged errors in its credit files and the fact that it makes its data available to junk mailers. But analyst David Moore of Donaldson, Lufkin & Jenrette believes TRW when it says the unit isn't presently for sale. He thinks the business currently might fetch as little as $400 million—not much more than the $330 million TRW paid in 1989 for Chilton, a consumer credit reporting firm.

Moore doesn't expect TRW to stage a strong recovery in 1992, when he looks for the company to earn $3.25 a share. While that would be a 23% gain over Moore's $2.65 estimate for this year, it would still lag 1990 results. He thinks the stock could fall to 35 over the next 12 months. (There are 62 million shares outstanding.) ■

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he more things change . . ."

0 years ago in Forbes

(OM THE ISSUE OF OCT. 1, 1921)

Republican campaign orators omised ruthless ejection of super- ous government employees at ashington and the saving of 'hun-

irca 1920, an early Piggly Wiggly store, first of the self-service food marts.

lreds of millions' in salaries. The total lismissals number fewer than 30,000 nd the annual saving means only bout $45 million. Not a great deal nore is likely to be done in this direction. The stark truth is that there s only one source where hundreds of millions of dollars can be saved by the government, namely, in our naval and military expenditures."

"**Judge Landis,** sitting as arbiter in the Chicago building trades' controversy, has handed down a decision making wage cuts varying from 10% to 33% from the old uniform rate of $1.25 an hour for skilled workers. Carpenters' wages are cut to $1, plasterers to $1.10, with 95 cents for sheet metal workers, painters, glaziers and elevator constructors."

60 years ago

(FROM THE ISSUE OF OCT. 1, 1931)

"**Armchair theorists** thunder against any increase in the public debt. There are times, however, when the ideal must be sacrificed to pressing necessity. . . . We were overtaxed in order to cut down the public debt more swiftly than necessary. Why not undertax us until conditions change? By following this course, change in conditions will be hastened. That, rather than any idealistic theory, should be the paramount objective of Washington."

"**Powerful pressure** is being put on President Hoover to [legalize] 3% beer. The proposed modification is urged on two main grounds: first, it would raise an estimated $300 million a year in new taxes; second, it would be the first step in untangling the distressing prohibition situation."

50 years ago

(FROM THE ISSUE OF OCT. 1, 1941)

"**U.S.-Japanese pourparlers** are encased in mystery. Japan has manifested reluctance to throw down the gauntlet to this country; but she has given no assurance that she is prepared to abandon her long-fixed ambition to become unchallenged master of the Orient, to set up there a 'new order' akin to the 'new order' Hitler aspires to establish throughout the continent of Europe."

"**National income** this year, according to latest estimates, will come close to $100 billion, about 30% above last year's total—almost 20% above the alltime high for 1929."

25 years ago

(FROM THE ISSUE OF OCT. 1, 1966)

"**It's true,** as the [N.Y.] *Times* and other newspapers reported, that Italy's Fiat automobile company has made a deal . . . to help the Soviet Union build a modern automobile plant with a capacity of about 600,000 small and medium-size cars a year.

"What they didn't report was that Fiat will be serving as a middleman for the U.S. machine-tool industry. Three-quarters of the machinery that Fiat installs for the Russians will come from the U.S. either directly or indirectly through European subsidiaries and licensees of American firms."

"**With much foreboding,** and under pressure from the Securities & Exchange Commission, the New York Stock Exchange last month agreed to revise its Rule 394 which forbade member firms from dealing off-board in listed securities. The revised rule permits member brokers to check the so-called Third Market in buying and selling for their customers, and to make their transactions off the Exchange floor if the price is better elsewhere."

The trailer park was born to house the war workers of World War II.

10 years ago

(FROM THE ISSUE OF SEPT. 28, 1981)

"**Amid the roar** of crashing bond prices, the key federal funds rate has come down by a significant amount. . . . There's a seeming contradiction here—bond yields rising but the Fed funds rate falling. Why this disparity? [We] believe the bond market has missed a major cue; it is so soaked in pessimism, in the gospel according to Henry Kaufman, that it failed to recognize the turn."

All work and no play makes jack. With enough jack, Jack needn't be a dull boy.

When the joy of the job's gone, when it's no fun trying anymore, quit before you're fired.

For some of us it seems like yesterday when Ike was in the White House, the U.S. Senate censured Joe McCarthy, and the Supreme Court unanimously ruled that racial segregation in public schools was unconstitutional.

Security isn't securities. It's knowing that someone cares whether you are or cease to be.

–MALCOLM FORBES

A Text ...

Let me hear thy loving-kindness in the morning; for in thee do I trust: cause me to know the way wherein I should walk; for I lift up my soul unto thee.
–PSALMS 143:8

Sent in by Mrs. J.T. Stoops, Wabash, Ind. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Who is rich? He that is content. Who is that? Nobody.
–BENJAMIN FRANKLIN

Many speak the truth when they say that they despise riches, but they mean the riches possessed by other men.
–CHARLES CALEB COLTON

His money is twice tainted: 'taint yours and 'taint mine.
–MARK TWAIN

I am indeed rich, since my income is superior to my expense, and my expense is equal to my wishes.
–EDWARD GIBBON

Money and sex are forces too unruly for our reason; they can only be controlled by taboos which we tamper with at our peril.
–LOGAN PEARSALL SMITH

Money: A blessing that is of no advantage to us excepting when we part with it.
–AMBROSE BIERCE

Money: A guarantee that we may have what we want in the future. Though we need nothing at the moment, it insures the possibility of satisfying a necessary desire when it arises.
–ARISTOTLE

With money in your pocket, you are wise and you are handsome and you sing well too.
–YIDDISH PROVERB

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If a fool and his money are soon parted, why are there so many rich fools?
–ANONYMOUS

It seems to be a law of American life that whatever enriches us anywhere except in the wallet inevitably becomes uneconomic.
–RUSSELL BAKER

To desire money is much nobler than to desire success. Desiring money may mean desiring to return to your country, or marry the woman you love, or ransom your father from brigands. But desiring success must mean that you take an abstract pleasure in the unbrotherly act of distancing and disgracing other men.
–G.K. CHESTERTON

Just as soon as people make enough money to live comfortably, they want to live extravagantly.
–ANONYMOUS

God makes, and apparel shapes: but 'tis money that finishes the man.
–THOMAS FULLER

Go into the street, and give one man a lecture on morality, and another a shilling, and see which will respect you most.
–SAMUEL JOHNSON

Avarice, or the desire of gain, is a universal passion which operates at all times, at all places, and upon all persons.
–DAVID HUME

Sometimes one pays most for the things one gets for nothing.
–ALBERT EINSTEIN

When money speaks, the truth keeps silent.
–RUSSIAN PROVERB

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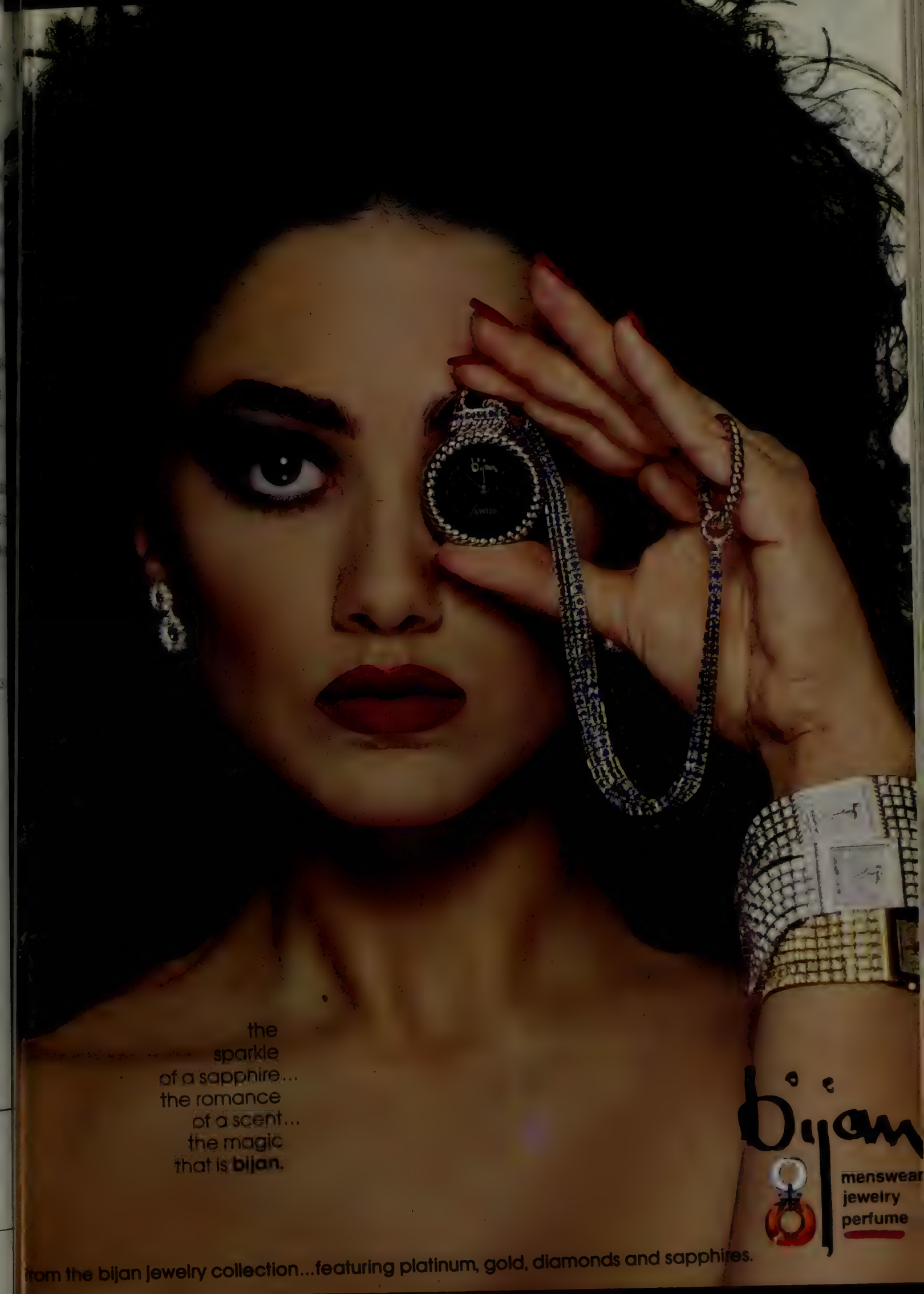
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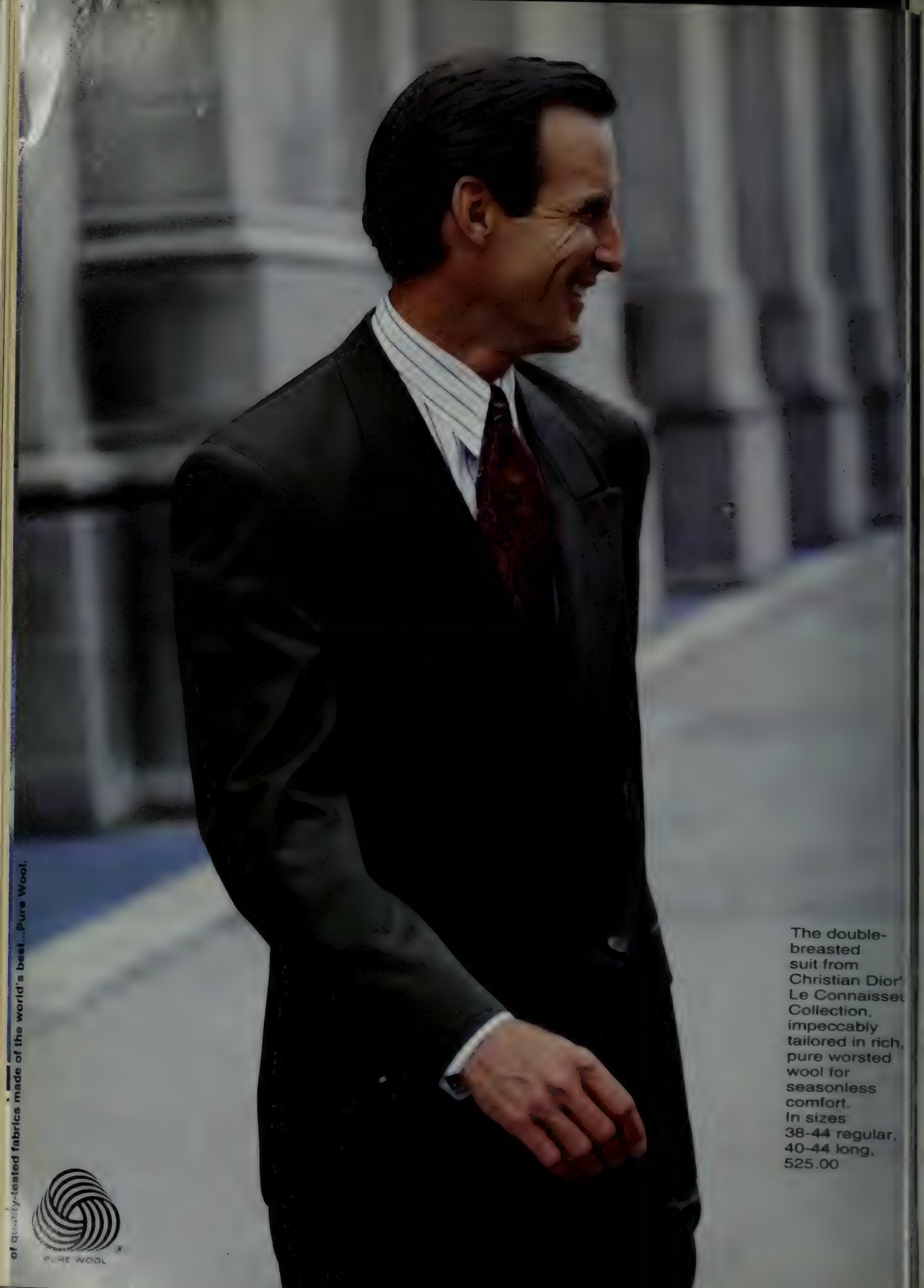
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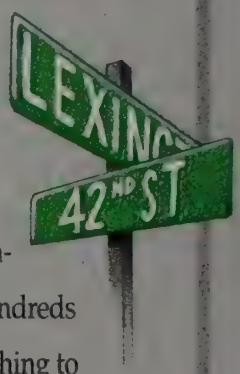

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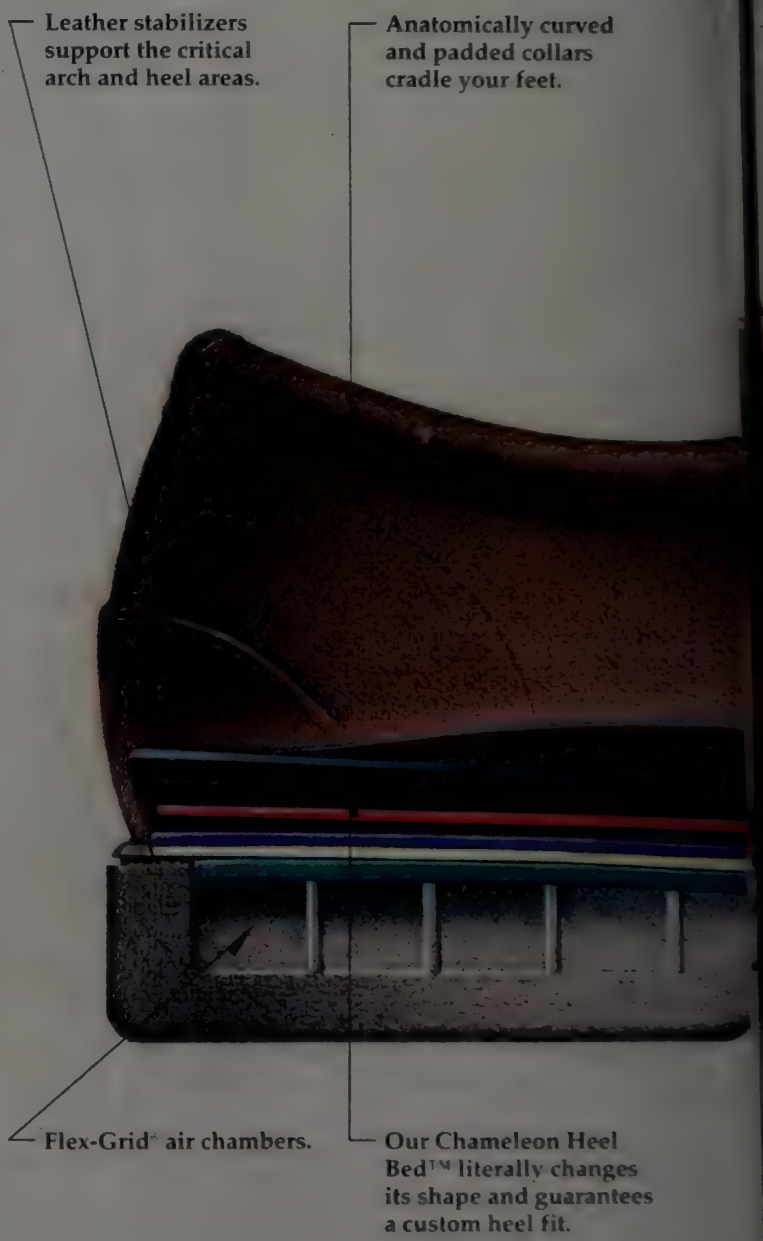

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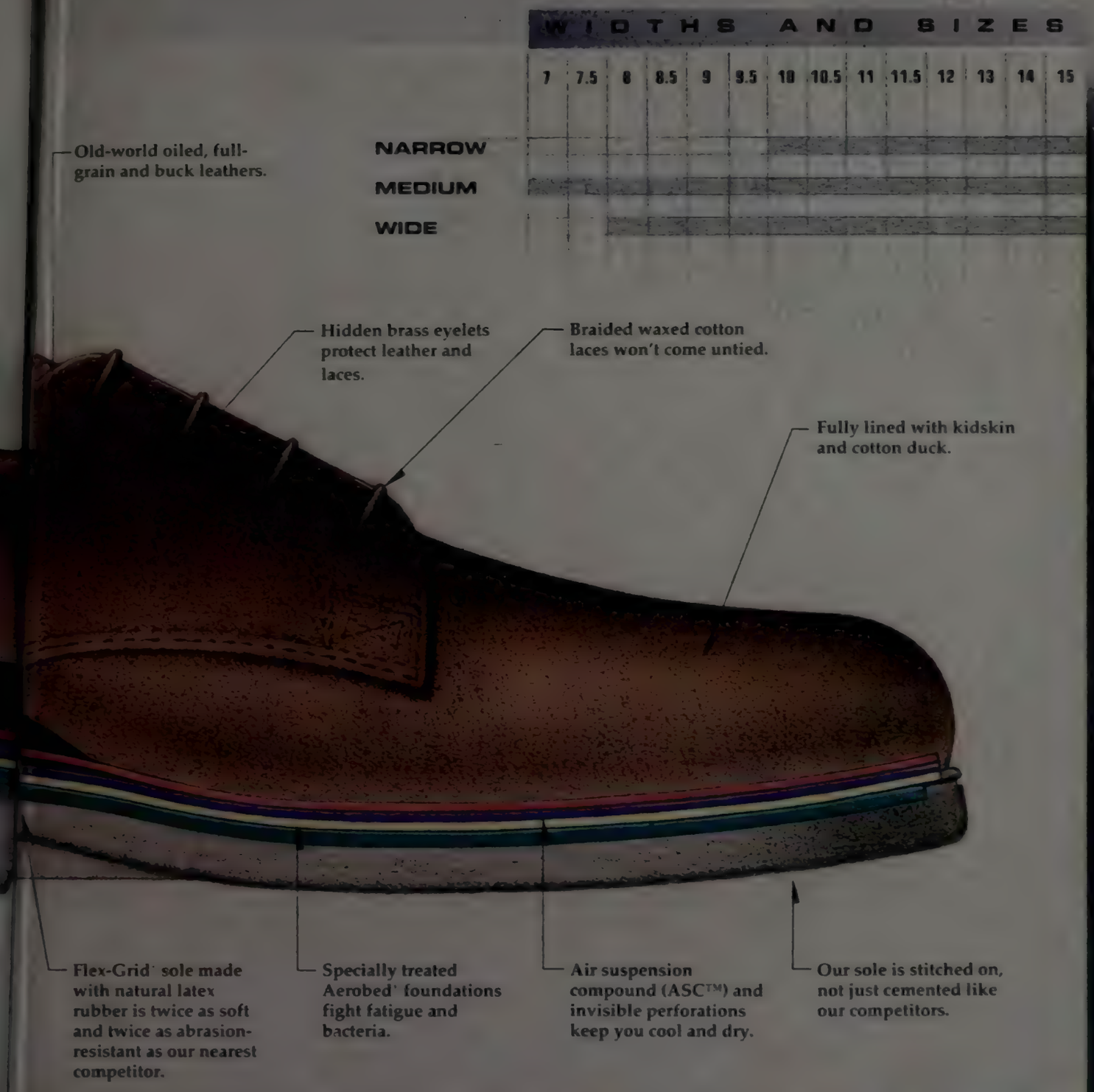

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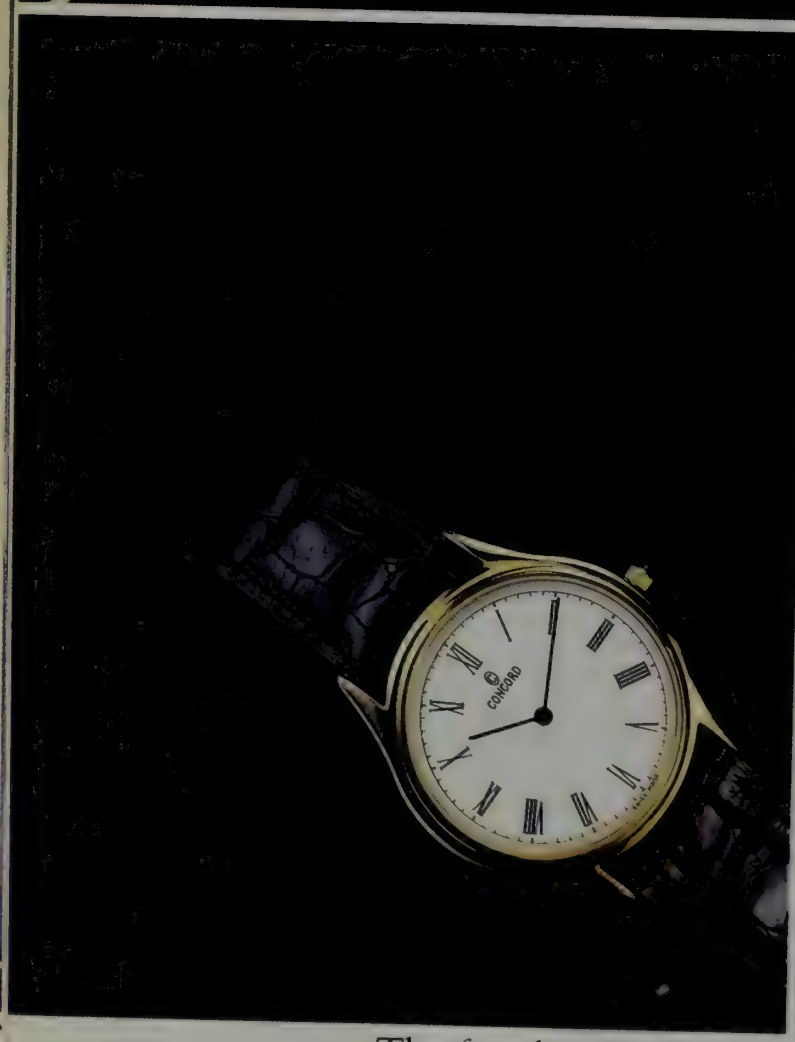

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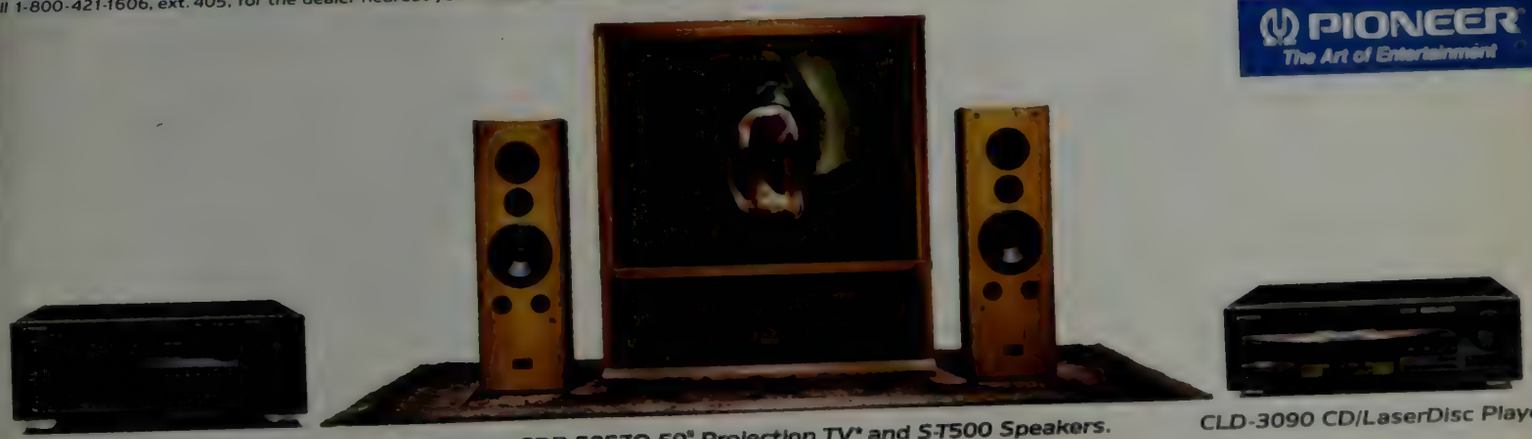

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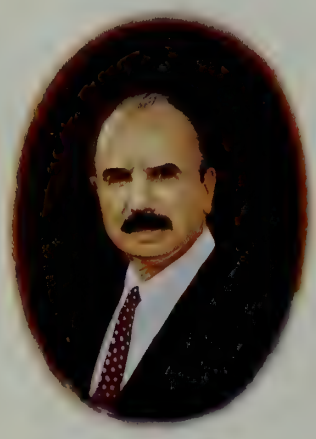

Gotcha Gadgets: Electronic Warfare For Civilians

IS THERE A man or woman in the audience who, while watching our Desert Stormers become invisible to enemy radar and send a missile up their drain pipe to blow away the guy on the third john from the left in the men's room, *didn't* yearn for a little high-tech help in the unending battle against the unfairness and aggravation encountered in everyday life? I suspect not.

This urge has led, over the last few years, to the creation of an entire industry. American motorists rebelled when the government started setting speed limits that had nothing to do with highway safety and everything to do with social goals (saving oil) and revenue (fines). The police countered with electronic warfare (radar). Counter-counter-reaction: entrepreneurs introduced electronic evasive measures (radar detectors).

For some, though, such a passive measure isn't enough. For $500 in commonly available parts, an electrical engineer of my acquaintance put together a device that is every motorist's dream. Switch it on and blast by Officer Bill at, say, 87 mph. As the blur that is your ZR-1 Corvette goes through the radar trap, it registers whatever you have dialed in—say, 43 mph—on the readout of the radar gun. In your rear view mirror you can watch Officer Bill banging his radar gun against the curb in a vain effort to get it to work.

Such devices can't be sold legally, however. Unlike a mere detector, which just receives a radio signal like your grandmother's Emerson, the source of Officer Bill's frustration broadcasts a signal and, therefore, requires a federal license; one, I assure you, our government is not about to issue. You'll have to find your own engineer and take your chances.

If you want to be really mean, a unit can be built for not much more money which will, when switched on in the vicinity of a radar gun that doesn't have shielded cables, burn it out. Come to think of it, that might not be so mean after all. It can't be doing Officer Bill much good to be sitting for an entire shift with his head next to a powerful microwave generator. He might as well stick his head in his wife's microwave oven, set it for eight hours and dial in "10" for broil.

Alas, we all had better have our fun soon, for the radar detector industry promises to be short-lived. Countermeasure begets countermeasure. Another entrepreneur has invented a portable speed monitor based on laser technology. It is, of course, impervious to a radar detector. As soon as the economies of scale bring the price within the budget of the police department of Scuffed Boot, Neb., there will be more revenue enhancement from coast to coast. Once, that is, they solve the problem that has lawyers drooling: hit a motorist in the eye with a laser and you have laser eye surgery performed by a state trooper.

But take heart. I have it on good authority that all those defense industry geniuses the Congress is going to make unemployed (on the theory that Gorbachev has somehow changed the nature of man and that the future will be filled with peace, harmony and love) are tackling the laser-detecting problem in the full knowledge that the first one to come up with a solution will be made an instant multimillionaire by the American motorist.

In the meantime, the best strategy is to acquire two more radios for your automobile. The first is to monitor the CB channel that the truckers use to feed intelligence to one another on the location of speed traps. They usually report them by identifying the organization ("county mounties" are county police), method (an unmarked car cruising for the unwary motorist is a "plain brown wrapper") and location, which is given relative to interstate mile markers. The second radio should be a "scanner," one that will rapidly change from one frequency to another until it picks up

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a signal, and then lock onto it. This way, one can listen in to the police as they discuss where they are going to set up the radar trap and, having done so, give themselves away as they signal their "chaser" cars which automobiles to intercept. Until the development and availability of the laser detector, these two kinds of radio receivers will be your only protection from the unreasonable speed limits that infest our streets and highways.

The best scanner radio available in the United States is the Japanese-made (surprise!) AR1000XC, by AOR. It will operate from 500 KHz to 1300 MHz and owners of one could listen in to the BBC from the battlefield via shortwave during the Gulf War. For those willing to travel to Japan or Europe, the best in the world can be yours in the R1, by ICOM. It's smaller than a pack of cigarettes, operates from 100 Hz to 1.5 GHz and can be used to sweep a room for electronic "bugs." It covers AM and FM, wide and narrow band.

Auto-Buggery

Speaking of radios, be aware of something called, in the clandestine services, an "infinity device." Planted in your home or office, this $1,500 gizmo, also the size of a cigarette pack, will turn your on-the-hook telephone into a radio transmitter. This means that anyone with a telephone can listen, from a remote location, to everything said in the room and, when the phone is in use, to both ends of your conversations. You say you have no enemies, and you can't imagine anyone doing such a thing to you? Read on.

A friend of mine, while testing a scanner, kept picking up what sounded like a baby crying. He dismissed it as interference. Later, on the same frequency, he picked up some decidedly intimate speech that increased in intensity until it ended in a crescendo that was, he is certain, not faked.

Discreet investigation disclosed that a young couple living 100 meters distant had installed an inexpensive "electronic baby-sitter" in the spare bedroom now doing duty as the nursery. The device picked up any cries an infant made at night or during a daytime nap, by broadcasting those cries to an ordinary FM radio in the kitchen, alerting its parents. When a young couple visited for the weekend, the baby was moved into the parental bedroom and the monitor was absentmindedly left in the bedroom now housing the guest couple. The FM radio in the kitchen was turned off, but my friend's wasn't. Who needs enemies when you're bugging yourself?

Later, on the same frequency, there was some decidedly intimate speech that increased in intensity until it ended in a crescendo that was, certainly, not faked.

An even more common occasion for self-bugging is the use of one of many available telephone answering machines that permits the owner to call in from a remote location, punch in a three- or four-number code, and listen to any recorded messages. It is a simple matter for a computer hacker, using no more than a personal computer, to crack your number code, and not only listen in to your messages, but also turn the answering machine into an infinity device. One solution is to move it out of your bedroom into, say, the garage.

Spread 'Em, You're On Candid Camera

One of life's aggravations is the way those sterling silver ashtrays always seem to disappear after cleaning or repair people have been working in your home. If your wife has to stand there and watch them every minute, she may as well do the work herself. The video cameras seen up near the ceilings of banks and convenience stores might work, but they are not yet available in French Provincial, and their installation would send your decorator into a fit of vapors, if not an outright swoon.

A related, but far more intolerable, problem is that of the office dweeb who always seems to come up first with a memorandum proposing the same idea you've been working on. This usually happens after you've been sent away from your office for lunch while he had his meal in.

High-tech to the rescue! Two or three glued-together and hollowed-out books fit easily into the decor of any room or office. If you don't want to sacrifice any part of your library, commercial "book boxes" are available at modest cost. Inside may be placed a video camera to view whatever goes on in the room through a pinhole-sized lens, and a transmitter, all powered by a mere nine-volt battery, the whole no larger than our familiar standard of measure, the ubiquitous pack of cigarettes.

The signal from your book box is sent to a hidden VCR for your later viewing pleasure. Don't worry about low light conditions. The video cameras offered for sale for recording your child's activities boast a low

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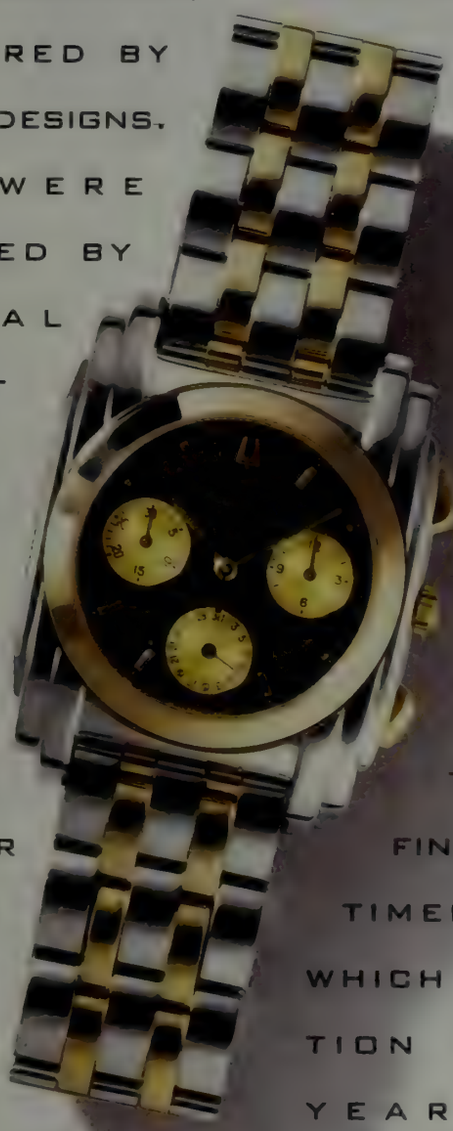

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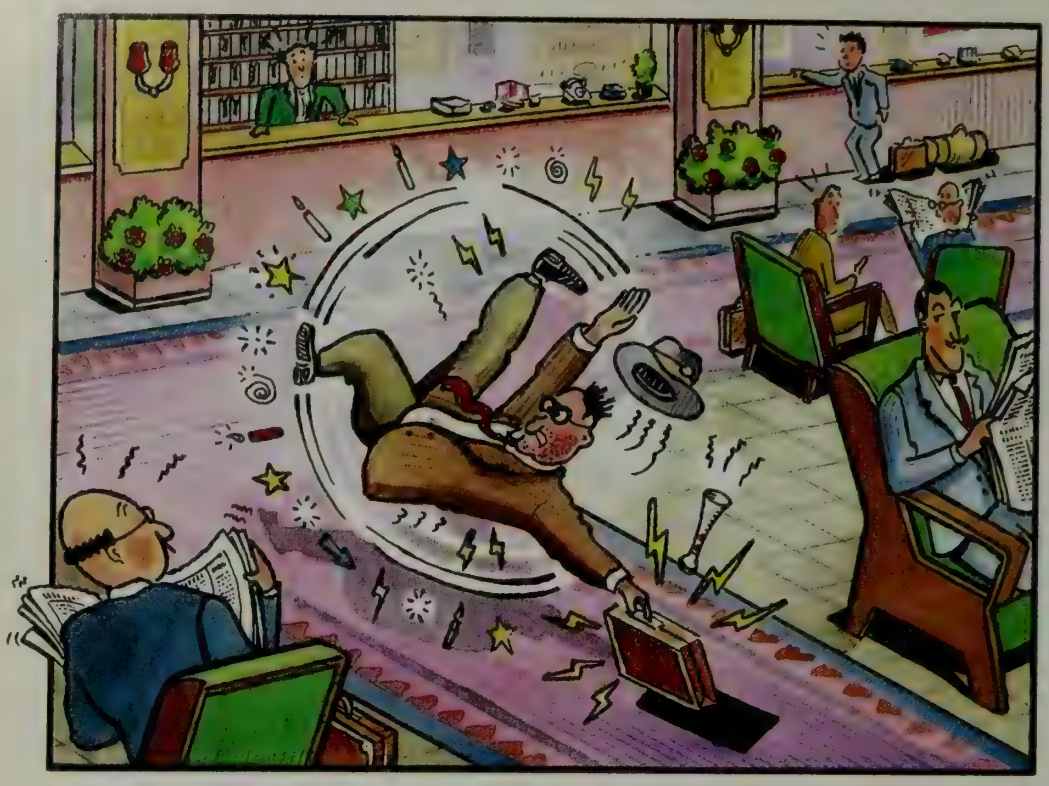

This theft-resistant briefcase offers 100,000 volts of protection.

light capability of 2 or 3 lux. This little baby operates at .02 lux—100 times more sensitive. The whole outfit will cost you about $1,500, plus the VCR of your choice.

While we're on the subject of your viewing pleasure, you may wish to consider a light amplification device, sometimes referred to as a "Starlight Scope" (seen during the last few terrifying minutes of *The Silence Of The Lambs*). Typically a monocular with either no or low magnification and a wide field of view, it will turn night into day for you (the "daylight" will be green-hued), and you will own the night with nothing escaping your detailed view, no matter how pitch-dark it may be on the grounds of your estate (or wherever else you choose to use it). These are available, new, for about $3,000 or, if you're extremely lucky, you might pick up an Israeli military surplus model (excellent quality) for about half that amount.

My fellow members of the American Master Cat Burglars Assocation have put me onto a device you active businessmen and -women may find of interest. A burglar on the job needs a silent way to be warned of danger by his lookout. Even a radio receiver at low volume with the speaker in a hearing aide earpiece à la Ted Koppel is susceptible to interception by police scanners.

The answer (for the burglar) is a telephone pager. Not your ordinary, bulky, belt-worn device that beeps and gives one away, but a device that looks for all the world like a fountain pen with a wire hanging from it. Worn in an inside pocket, as would be a pen, it vibrates when the lookout, spotting danger, dials it from any telephone. That's enough for the burglar. Those in another line of work may simply look at the side of the device where the number to be called will be displayed.

I mention this gadget because, although I am (reasonably) certain that I am not addressing any burglars here, I can imagine how many of you have been embarrassed at a meeting when your pager beeped as the chairman was about to utter either the punchline of a joke he was the last to hear, or the secret of success which, for him, was hard work and inheritance. At a minimum, a beeping pager, the current symbol of success as a dope dealer in inner-city grammar schools, is considered a bit tacky in certain business and social circles.

Last, but not least, there is th high-tech solution to the problem the sneak thief who lingers in th lobbies of the finest hotels to relie arriving guests of their briefcases they check in, or the snatch-and-ru artists who make off with them whi their owners are trying to hail a cab

For $1,200 one can have an ele gant, functioning briefcase, which when grasped while it is armed, wi a) sound a siren-type alarm, and b temporarily disable the thief with 100,000-volt charge (no amperage therefore no physical damage leadin to a lawsuit). The sight of the thief on his back, unable to remember hi name and flopping around trying to run from the screaming siren, is al most worth the $1,200 admission ticket. Happy high-tech hunting!

G. GORDON LIDDY *is the autho of the novel,* The Monkey Han dlers, *published by St. Martin's Press He operates the G. Gordon Liddy Acade my for corporate security in Miami, Fla*

There are, from time to time, radar jammers offered for sale in the classified ad pages of automobile magazines. I know of none that works. If you want one, have it hand-built by an engineer and test it (using the engineer, not a cop) before paying and taking delivery.

The remainder of the equipment discussed in this article may be purchased, in New York City, at Spy World, 889 First Avenue, New York, NY 10022; 212-755-4900. Ask for the proprietor, Frank Jones, a retired New York City police detective. The equipment may also be purchased, at comparable prices (negotiating is always in order on big-ticket items) from Spy Shops International, Inc., with locations in Miami and Ft. Lauderdale, Fla., and Kuwait City. 305-573-4779. Speak to John Demeter. Also in Florida, check International Protective Services, 305-447-7455. Ask for Robert Fetner. Tell him I sent you.

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Coyote Jack

OUTDOORS GUIDE

Trout fishing with the President.

DEAR FYI,

Late again, wouldn't you know it, but between the grillings by the Secret Service and U.S. District Attorneys, I've been busier than a cat passing peach pits. One of the Treasury agents said he would try to get this to you and asked if you would send him Gordon Liddy's autograph in exchange.

You may recall from my last transmission that after Reback got nailed by the Fish and Game for clobbering trout with a baseball bat, a Hang Reback Committee was organized whereby the holder of the winning raffle ticket got to pull the trapdoor lever when they hanged Reback. You may also recall that Old Lady Grimes, whose cats Reback had been shooting for their fur, which made excellent nymphs, had bought herself $4,000 worth of raffle tickets to ensure she would be the one personally to send Reback to the nether regions.

Problem was some pecksniffing Federal judge threw out Reback's death sentence.

So now Reback was out pending appeal. Needless to say, Old Lady Grimes was aggrieved by this news, and contemplating her $4,000 worth of useless raffle tickets and her deceased Blue Persians, armed herself with a pick handle and two rottweilers she had trained by the Kraut war criminal lives up Fugitive Creek.

Reback, full of the dolefulness, was forced to flit from saloon to saloon and keep his Adidases cocked and ready. I told him it might be best if he betook himself deep into the Absaroka Wilderness and Primitive Area for what they call in other parts a sabbatical whilst Old Lady Grimes's pituitary cooled, but he said that under the terms of his release he had to stay within a five-mile radius of the courthouse; either that or consent to wear one of those electronic ankle bracelets. Reback is a proud man and said he'd rather be licked to death by raccoons than wear one of those things. So he stayed and drank.

But Old Lady Grimes was swearing revenge most grim. Indeed, the scenario she was spelling out to her stitch'n'bitch circle made being licked to death by raccoons seem one of God's tenderest mercies. I resolved it was time Reback removed himself from Old Lady Grimes's radius, to hell with the court's.

As you know, both Reback and me are members of the Bent Fork Volunteer Search and Rescue team. We were in the Mint Saloon one morning, Reback nursing a prairie oyster next to me at the bar, when it came to me. I faked the sound of a beeper, went to the phone, grunted a few concerned-sounding "Uh-huh"s for verisimilactritude, a word of Latin origin meaning "to make a lie sound better."

"Well, guess what," I hissed in a tone calculated to penetrate the gummy matter surrounding the hemispheres of Reback's sozzled cerebellum. "You know that *Sports Illustrated* swimsuit model, Paulina? Her private jet just went down in the Absaroka."

It was like I'd attached jumper cables to both his earlobes. Next thing I knew he had me up against the wall, threatening me with death if I breathed a word of this miraculous news to anyone. Then he run out of the Mint. Later it transperspired he'd kicked in the back door of the Gourmet Shop and lifted four kilos of Beluga and a case of Piper-Heidsick Champagne. I heard the stutter of Reback's ultralight aircraft, sort of a combination hang glider and lawn mower, taking off into the wind. Old Lady Grimes heard it too. She came running into the middle of the street, hair in pink curlers, clutching her Remington Model 1100 shotgun, the rottweilers slobbering bloodclots and bone fragments after her. She got off a couple shots at Reback and his aircraft before they disappeared

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My present trouble was the 16 shots of whiskey in my crankcase... It's a bit of a blur, but I seem to remember being lifted into a helocopter and carried to the river and being assisted into a driftboat so thick with Secret Service there was only about a sixteenth-inch of freeboard.

over Mill Creek in the direction of the Absaroka Wilderness.

I congratulated myself and rededicated myself to the bottle of brown goods in front of me. By noon I had achieved a state the orientals call *sartorial*—which takes them 20 years to achieve, living on brown rice and water whilst listening to the sound of one hand flappin'—when suddenly there was this sound in my ears, loud, like *whoppawhoppawhoppa*. I do sometimes get sounds in my ears during *sartorial*, so I didn't think too much of it, until the doors of the Mint burst open and all these well-built men in suits and dark glasses come swarming in, with tubes running out their collars into their ears. I was on the verge of asking Mort if this was some convention of hearing-impaired body builders when he moaned, "Oh Lord, no, not again. Last time we had this it was that peanut farmer lived in the White House wantin' to upgrade from catfish to rainbow trout. They brought in so many damn helocopters my hens didn't lay eggs for a month." He shouted at the suits, "WHY CAN'T THE SUMBITCHES STICK TO GOLF?!"

The suits didn't take that well and threw both of us up against the wall and commenced to frisking us. The boys didn't take kindly to that and for a moment it was touch and go, till in comes a suit with a clipboard, followed by a gaggle of lesser suits.

"Who's the best fishing guide in town?" he demanded.

All eyes turned to yours truly.

Now I have nothing against George Bush. He seems a decent sort, though he has been a mite soft of late on the issue of assault rifles. Ordinarily I'd be proud to take him out of the river. My present trouble was the 16 shots of whiskey in my crankcase, and I could not with confidence predict that I could remain upright, even in cold water up to my cohones. I tried to decline politely as I could, but the suit would have none of it. It's a bit of a blur after that, but I seem to remember being lifted into a helocopter and carried to the river and being assisted into a driftboat so thick with Secret Service there was only about a sixteenth-inch of freeboard.

The President was the soul of geniality and kept apologizing, the way Episcopalians are wont to, for all the inconvenience. That fat dwarf he keeps nearby to amuse himself was there, scowling through granny spectacles whilst croaking orders into two cellular phones at once.

George—if I may call him that, we're informal on the river—flogged away at the water. He meant well, but after he entangled his line 14 times and impaled an advanceman in the thigh with a Lefty's Deceiver, I concluded that he is probably more of a spin-caster. He does not have the trout temperament.

This futility went on for an hour or so. Then out of the corner of my eye I catch the fat dwarf furtively issuing instructions to a suit, who in turn spoke into a radio. The President cast again, letting his fly float downstream, contrary to my instructions. The fat dwarf distracted him by asking him if he was ever going to do anything about the deficit. While the President cussed him out, a frogman appeared in the vicinity of his fly and attached a struggling rainbow trout the size of a nuclear attack submarine. Where they got it, I don't know. The National Aquarium, most likely. Or some hush-hush government mutant trout hatchery.

Suddenly the Presidential rod bent like a sapling in a 100-mile-an-hour hurricane. George ceased to berate the fat dwarf about the deficit and set to struggling with the leviathan the Navy SEAL had affixed to his fly.

The President was having himself one hell of a time fighting the fish, his minions ululating encouragement at him. Every time I yelled at him to keep his tip up, the fat dwarf glowered at me like I was committing *lays majestay*.

After 20 minutes the trout had tuckered out and George was starting to ease him toward the gaff when the suit who'd been walkie-talking with

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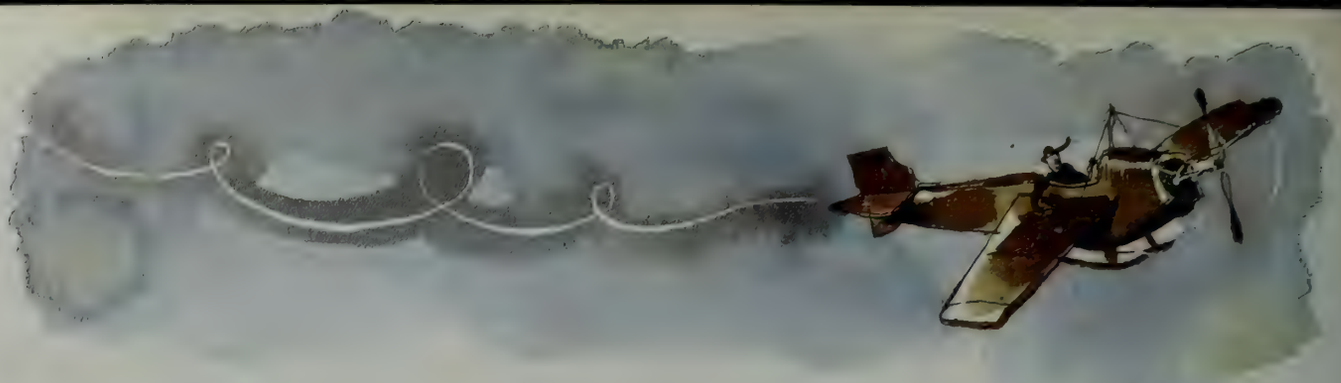

A second later there was a whirrr *sound low over the cottonwoods, and, God save our sorry behinds, here comes Reback in his ultralight.*

the helocopters overhead began shouting at the other suits in the drift boat with us. The suit closest to George says in this urgent voice, "Sir, we have an unidentified airborne object in the area." From the look on George's face it was plain he wouldn't have looked up if he'd just been told the *Starship Enterprise* herself was hovering overhead with the entire Mormon Tabernacle Choir standing on the fuselage singing "The Star Spangled Banner." He had his mind on one thing, that trophy fish.

A second later there's this *whirrrrr* sound low over the cottonwoods, and, God save our sorry behinds, here comes Reback in his ultralight. Then this object sails out of his craft down in our direction and now the suits go into action, leaping on top of El Presidente like football players piling on. Myself I did not understand the logic of saving a man's life by crushing him to death, but I guess they cover that in Secret Service school. The object landed on the fat

warf's head with a hollow *thunk* I immediately recognized as G-flat below middle C, the sound of an empty bottle of '82 Piper-Heidsick.

"Reback, you idiot!" I shouted.

This turned out to be exactly the wrong thing for me to have said, as I was then, in classic Secret Service fashion, wrestled to the ground, they thinking that I was engaged in some sort of conspiracy with the airborne Champagne bottle assassin. I tried to explain that either Reback had figured out I'd played him one of my little practical jokes and was aiming his missiles at me, or he was convinced that Paulina must be underneath all those helocopters, but it is difficult to explain things to a 220-pound man kneeling on your chest with the muzzle of a Glock 9mm imprinting itself onto your Adam's apple. Before I passed out from hyperventilation, I saw Reback heading off downriver with one of the helos in hot pursuit. We caught up later at the Federal Detention Center in Butte.

I think it would have been all right except that George lost that trophy trout. He was apparently upset at that. The Treasury agent whose job it has been to interrogate me from sunup to sundown these last few days about such matters as the maiden name of my third grade homeroom teacher says he thinks they will probably let me go, though Reback may be looking at some protracted federal unpleasantness. By the time they're through with him he may be wearing one of them electronic bracelets around his neck, to say nothing of his ankles or other body parts, and that's if the judge is in a good mood that day, upon which likelihood I would not place a large sum of money.

Yours,

Coyote

P.S. Please do not forget about the Liddy autograph.

COYOTE JACK *writes novels and such under the name "Peter Bowen."*

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Touring Pro

THE ART OF TRAVEL

Getting from gig to gig with Peter Duchin.

. . . . .

By Nancy Southam

So the damn plane is two hours behind schedule, and that means there's no time to change into your work clothes before the date you're already an hour late for. You've got a job to do that was booked months in advance, and you're sitting in your first-class chair—window bulkhead—trying to remain calm. What do you do?

Simple, if you're bandleader Peter Duchin. You remove your garment bag from the overhead rack, walk into the lavatory and, with some difficulty, undress and redress into your tuxedo. "It saves time," the well-built, affable bandleader offers, "and the stewardesses love it."

For nearly three decades Duchin, a debonair New Yorker, and his orchestras have made people get up and dance. He has played for presidents and kings, Hollywood bright lights and political heavyweights, wealthy friends and equally wealthy strangers. In the past year alone, Duchin played 110 dates in 65 places, traveling an aggregate of 250,000 miles to get to those shiny Baldwins, Steinways and Yamahas. (In addition, his seven other groups played another 1,000 dates without him.)

Like everyone who travels excessively, Duchin sighs over the lamentable lack of assistance, inevitable delays and promised ETAs not kept. "When I first began," he says, "the band would be assigned a travel service manager. We were properly taken care of. That is not the case today.

"One is rudely treated by the airlines, and one stands in terror of losing one's instruments. We make a big effort to locate rental agencies for tuxes and instruments. The bags are lost too much—that's a huge fear in our business. One must allow for delays." Which is why Duchin carries his work clothes on board with him, always, in a handy garment bag.

And which is why, once the plane is actually boarding, he recommends getting on first. "Don't hang around and wait until they call out your seat number," he says. "If you get on first, you're assured the baggage rack above your seat is empty."

And which is why, he says, make sure you're a member of *every single airline club* in America. "That way you can use their lounges to transact business, make phone calls and have airline personnel help you with travel arrangements. When you're an eight-piece band and you've got a job to get to, and the plane is delayed, you need all the help the airline personnel can give you."

Though Duchin himself is always met at the airport either by the client or a limousine, the boys in the band often hire a van for themselves and their instruments. Another tip, he suggests, is to be a preferred member of every car rental agency in the country. Checking in and returning the vehicle with a membership can easily save half an hour, often the difference between a connection made and a connection blown.

Wherever and whenever a flight is canceled, the band must find a way to play on. When that happens, the bandleader has to charter an aircraft, or—for someone who seems to know *le tout*—phone a friend who happens to have his own jet.

"I remember one time we'd played in Palm Beach," Duchin says, "and we had to get to Panama City, Fla., to play the next night, and all the commercial flights were canceled because of a tornado. I phoned this friend of mine who had a jet, and he agreed to fly us. So there we were, following a tornado. The pilot would say, 'I see a hole in it near Tampa,' and in we went. You should have seen the guys in the band. White with fear. We made the date. Well," he corrects himself, "we were five minutes late."

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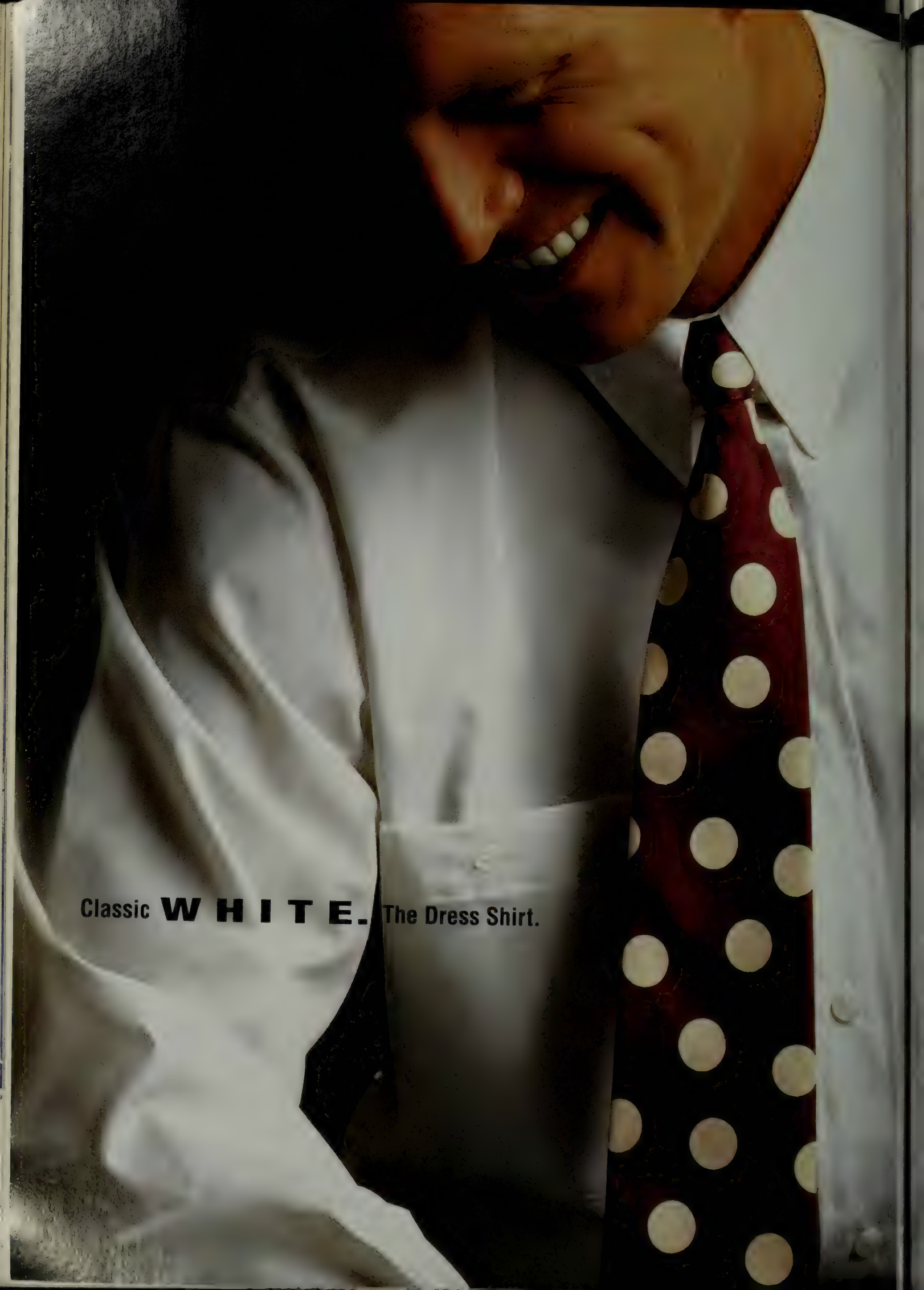
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The bulging bandleader and his terrific Topsiders.

Outside of New York, Duchin's favorite hotel in America is San Francisco's Stouffer Stanford Court. There he always orders a suite on the side away from the street. "I want silence when I get to my room" he says. Because the band often doesn't have much time to eat, room service is key to their survival.

"The hotel's room service has to be quick and has to be 24-hour," says Duchin, who likes his food and drink. "Quick" means 20 minutes, max. The Stanford Court and the Mayfair Regent in Chicago are the two hotels which win the 20-minute Duchin award for promptness.

"Another important element is the staff. Preferably, there should be a certain continuity in the staff of any hotel. I don't want a group of kids who are continually shuffling jobs."

Peter Duchin can, on a moment's notice, have his band play any one of 5,000 tunes in their repertoire, and at the piano, he is the very picture of imperturbable aplomb. Nevertheless, life on the road for a Duchin-led band does have its moments of truth and tribulation. Like the time in Louisiana a year ago when all the band's luggage was lost, and they had to rent everything: clothing, amplifiers, drums, guitar, bass. That was fine; everything was produced except for one small detail. The rental agency had run out of black shoes. Never mind. The band members played on in black tie, Topsiders and sneakers. The folks in Louisiana loved the shoes and wanted to know if "Topsiders'n'tux" was the new rage in New York City.

Then there was the Kentucky Derby party at Spendthrift Farms in Lexington a couple of years ago. All the musical instruments were rented as planned. The only equipment that was missing were the drumsticks, a minor detail discovered minutes before the band was set to play. The conga drummer went to the kitchen, returned to the bandstand and played with a monkey wrench in one hand, a pair of pliers in the other.

Being Peter Duchin is nice work—as the Gershwins would say—if you can get it. Still, it's work. "There are

nes on the road when we play four tes in a row in different cities," he ys, "playing until one in the morn-g, and then on a plane at eight or ne the same morning, and some-ing gets screwed up, and the nd's dead tired, and I'm tired, and e've got work to do."

So if there's one thing the road has ught the 54-year-old bandleader to ltivate, it's patience. "I used to se it when things didn't go the way ey should," he reflects. "Now I on't. There's just no point."

NANCY SOUTHAM *is a journalist based in Montreal.*

DUCHIN'S HIGH AND LOW NOTES

HOTELS (attention to detail, service, civility, room service, and quiet)

BEST: Stouffer Stanford Court, Huntington Hotel, San Francisco; Soniat House, New Orleans; Mayfair Regent, Chicago; Regent Beverly Wilshire, Sunset Marquis, Los Angeles; Ritz-Carlton, Boston; La Fonda, Santa Fe; Ritz-Carlton Buckhead, Atlanta.

WORST: Radisson, Burlington, VT.

BEST ROOM SERVICE: The Carlyle, New York; Stouffer Stanford Court, San Francisco; Mayfair Regent, Chicago; The Brown Palace, Denver.

AIRPORTS

BEST (easy transfers, no hassles, no lost baggage): Tampa; San Francisco; Dallas-Ft. Worth; Billings, MT; Portland, OR.

WORST (lost baggage, delays, difficult transfers): Heathrow; JFK; La Guardia; O'Hare; Los Angeles; Miami.

AIRLINES

BEST (service and attention): Delta; American; Northwest.

WORST (lack of same: United; Continental; Trump.

BEST AIRPORT NEWSSTAND: La Guardia; San Francisco.

WORST AIRPORT NEWSSTAND: O'Hare.

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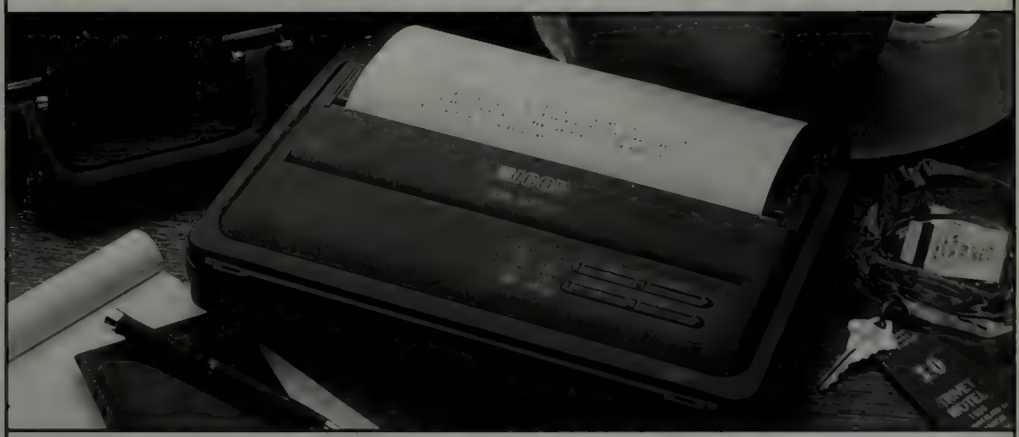

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Deals On Meals

In Los Angeles: a short course on food in the fast lane.

. . . . .

By Amy Tucker

The trendier restaurants in L.A. pulsate with their own brand of energy. I refer not to the service, of course, which can be desultory if you're unknown, but to the action at the other tables. All about you the room throbs with a palpable sense of deals being struck, among diners buffed to the kind of healthy sheen that only strenuous exercise and costly surgery can impart.

By and large, though, Jackie Collins lied to us. To keep up with the food scene in L.A., you don't need a bankroll, a couturier, a set of implants or a high recognition factor. What you need is wheels. The city sprawls, and restaurants have scattered to its nether reaches to evade escalating rents. Public transportation wheezes; cab sightings are rare. Almost nothing is convenient to your hotel, so get in that rental car and drive to your next meal like everyone else. The following choices for breakfast, lunch and dinner highlight exceptional food at manageable prices in a range of locales.

If you find early-morning conviviality hard on the nerves, serve yourself at *Campanile*. Although dinner at this ascendant star can be pricey, the management also does an elegant and affordable breakfast. Located the older and slightly seedy mid-W shire district, Campanile, like many L.A. eateries, appears to ha sprung up in the middle of nowhe Even so, customers are lured by p visions from the adjoining La Br Bakery, as well as by the restaurant tranquil setting—its vaulting su filled atrium, empty bell tower an terra cotta tiles a post-Hollywo take on Siena.

You order from a blackboard men at the bar, and carry coffee and yo choice of the pastries on display your table. Hot items, prepared i the open kitchen, are brought to yo Currant scones ($2.25) and brioch baked with crème fraîche custard a uncloying accompaniments to th decent cappu cino. Soft-boile eggs ($3.75) an poached egg with sautee mushrooms an crumbled apple spiced baco ($5.50) come with other triumph from the bakery: an improbabl crusty ficelle, and buttery, swee slices of toasted pain de mie, serve with homemade apricot, mango o rose geranium preserves. Best of all i the toasted walnut bread toppe with mild goat cheese and a drizzle o olive oil ($3.50). Stop at La Brea o your way out and grab a loaf for th road.

(624 South La Brea Ave., mid-Wilshire District. Open Mon.-Sat. 8-11:30 a.m. and 6-11 p.m. Major CC accepted, cash only for breakfast. 213-938-1447.)

Joachim Splichal is L.A.'s celebrity chef of the hour. Followers have gone around the track with him several times, making pit stops at the Regency Club, Seventh Street Bistro, and Max au Triangle. Splichal's fans attribute the smashing success of his latest run at *Patina* to the chef's newfound focus, and to his sous-chefs ability to keep the place humming when the boss is away.

Hunkered down on the scruffy frontier of Melrose, past the retro-

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Pat Benatar: True Love (Chrysalis) 44663

Fleetwood Mac: Behind The Mask (Warner Bros.) 43766

Bulgarian State Radio & TV Choir: Le Mystere des voix Bulgares (Nonesuch) 01081

Tom Petty: Full Moon Fever (MCA) 33911

The Best Of Bob Marley: Legend (Island) 53521

Black Box: Dreamland (RCA) 84063

America: History (Greatest Hits) (Warner Bros.) 23757

Dolly Parton, Linda Ronstadt, Emmylou Harris: Trio (Warner. Bros.) 14804

Yanni: Reflections Of Passion (Private Music) 24223

Jackson Browne: The Pretender (Elektra) 10848

Leon Redbone: Sugar (Private Music) 62325

The Best Of Melanie (Buddah) 20005

Jesus Jones: Doubt (SBK) 44654

U2: The Joshua Tree (Island) 53501

The B-52's: Cosmic Thing (Reprise) 14742

Lisa Stansfield: Affection (Arista) 34198

Traveling Wilburys: Vol. 1 (Warner Bros.) 00711

Stevie B: Love And Emotion (RCA) 00539

Concrete Blonde: Bloodletting (I.R.S.) 84212

Van Halen: OU812 (Warner Bros.) 50913

The Cars: Greatest Hits (Elektra) 53702

The Escape Club: Dollars And Sex (Atlantic) 54291

Edie Brickell: Ghost Of A Dog (Geffen) 73923

Joe Cocker: 13 Classics (MCA) 04887

Bruce Hornsby & The Range: A Night On The Town (RCA) 63689

Bette Midler: Some People's Lives (Atlantic) 53568

Slaughter: Stick It Live (Chrysalis) 20666

Cinderella: Heartbreak Station (Mercury) 73694

Paul Simon: Graceland (Warner Bros.) 72315

Carly Simon: Have You Seen Me Lately? (Arista) 20912

Supertramp: 14 Classics (A&M) 04891

Carreras, Domingo, Pavarotti: 3 Tenors (London) 35078

Acoustic Alchemy: Reference Point (GRP) 82967

Music Of Bali (Nonesuch) 44671

Jane's Addiction: Ritual de lo Habitual (Warner Bros.) 10020

Paula Abdul: Shut Up And Dance (The Dance Mixes) (Virgin) 80326

Reba McEntire: Rumor Has It (MCA) 44609

Endless Love-Great Motown Love Songs (Motown) 10995

Best Of Eric Clapton: Time Pieces (Polydor) 23385

Prince: Graffiti Bridge (Paisley Park) 34107

16 Top Country Hits, Vol. 1 (MCA) 74207

Warner Bros. Symphony Orchestra: Bugs Bunny On Broadway (Warner Bros.) 70059

Aerosmith: Pump (Geffen) 63678

Vince Gill: Pocket Full Of Gold (MCA) 73599

Bad Company: Holy Water (Atlantic) 24784

Replacements: All Shook Down (Warner Bros.) 83585

Grateful Dead: Built To Last (Arista) 72230

Patsy Cline: 12 Greatest Hits (MCA) 53849

Pinnock: Vivaldi, The Four Seasons (Archiv) 15356

The Mamas & Papas: 16 Of Their Greatest Hits (MCA) 80183 ✻

Elvis Presley: Great Performances (RCA) 60752

Led Zeppelin IV (Runes) (Atlantic) 12014

ZZ Top: Recycler (Warner Bros.) 73969

Janet Jackson's Rhythm Nation (A&M) 72386

Crosby, Stills, Nash & Young: Greatest Hits (Atlantic) 30230

Frank Sinatra: Sinatra Reprise/The Very Good Years (Reprise) 80304

Lynyrd Skynyrd's Innyrds (MCA) 01150

Foreigner: Records (Atlantic) 53317

Hi-Five (Jive) 10542

Clint Black: Killin' Time (RCA) 01112

Charlie Parker: Bird/Original Recordings (Verve) 01044

Depeche Mode: Violator (Sire) 73408

Anita Baker: Compositions (Elektra) 00921

Kitaro: Kojiki (Geffen) 43758

Gerald Albright: Dream Come True (Atlantic) 10490 ✻

Simon & Garfunkel: The Concert In Central Park (Warner Bros.) 44006

Styx: Edge Of The Century (A&M) 74498

Mötley Crüe: Dr. Feelgood (Elektra) 33928

The Police: Every Breath You Take—The Singles (A&M) 73924

Quincy Jones: Back On The Block (Warner Bros.) 64116

AC/DC: Back In Black (Atlantic) 13772

The Judds: Love Can Build A Bridge (RCA) 24549

Vinnie James: All-American Boy (RCA) 63237

Clint Black: Put Yourself In My Shoes (RCA) 24690

Contraband (Impact/MCA) 32031

Eagles: Hotel California (Asylum) 30030

The Cole Porter Songbook (RCA) 54023

Diane Schuur: Pure Schuur (GRP) 10824

Guy!: Guy!...The Future (MCA) 14875

George Strait: The Chill Of An Early Fall (MCA) 53641

Fleetwood Mac: Rumours (Warner Bros.) 24025

Father M.C.: Father's Day (MCA) 53724

Z.Z. Hill: Greatest Hits (Malaco) 64479

INXS: X (Atlantic) 64378

Tomita: Snowflakes Are Dancing (RCA) 30763

Steelheart (MCA) 44528

Engelbert Humperdinck: Love Is The Reason (Critique) 94103

Benny Goodman: Yale University Recordings, Vol. 1 (MusicMasters) 93504

Keith Sweat: I'll Give All My Love To You (Elektra) 51603

Dave Grusin: Havana/Sdtk. (GRP) 11082

Dwight Yoakam: If There Was A Way (Repnse) 64310

Paul Overstreet: Heroes (RCA) 50526

Diana Ross & The Supremes: 20 Greatest Hits (Motown) 63867 ✻

Madonna: The Immaculate Collection (Sire) 54164

Marvin Gaye: 15 Greatest Hits (Motown) 53534 ✻

Damn Yankees (Warner Bros.) 14852

Styx: 14 Classics (A&M) 14822

Kronos Quartet: Winter Was Hard (Nonesuch) 00675

AC/DC: The Razors Edge (ATCO) 33379

George Benson/Count Basie Orch.: Big Boss Band (Warner Bros.) 13519

Nelson: After The Rain (DGC) 74079

16 Top Country Hits, Vol. 2 (MCA) 34217

You Can't Hurry Love (Motown Love Songs) (Motown) 10584 ✻

Kenny G: Live (Arista) 64505

The Best Of Steely Dan: Decade (MCA) 54135 ✻

Mario Lanza: The Great Caruso (RCA) 80259

Gipsy Kings: Allegria (Elektra) 11178

Joe Sample: Ashes To Ashes (Warner Bros.) 54092 ✻

K.T. Oslin: Love In A Small Town (RCA) 74372

Alan Jackson: Here In The Real World (Arista) 53833

Best Of The Doobie Brothers (Warner Bros.) 43738

Come Dancing With The Kinks (Ansta) 60077

Barry Manilow: Live On Broadway (Arista) 24805

Kathy Mattea: A Collection Of Hits (Mercury) 10791

R.E.M.: Eponymous (I.R.S.) 00701

Very Best Of Cream: Strange Brew (Polydor) 00468

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Twin Peaks/TV Sdtk. (Warner Bros.) 63540

Yellowjackets: Greenhouse (GRP) 10475 ✻

Tangerine Dream: Melrose (Private Music) 10724 ✻

Chicago: Greatest Hits 1982-89 (Reprise) 63363

Billy Idol: Charmed Life (Chrysalis) 62264

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Best Of Dire Straits: Money For Nothing (Warner Bros.) 00713

Traveling Wilburys, Vol 3 (Warner Bros.) 24817

Don Henley: End Of The Innocence (Geffen) 0106

Peggy Lee Sings The Blues (MusicMasters) 43661

Hank Williams, Jr.: America (The Way I See It) (Warner Bros.) 2061

Cliburn: My Favorite Chopin (RCA) 10996

The Best Of Bad Company: 10 From 6 (Atlantic) 60321

1950's Rock & Roll Revival (Buddah) 1117

Greatest Gospel Hits (Malaco) 44366

Cher: Heart Of Stone (Geffen) 42874

Debbie Gibson: Anything Is Possible (Atlantic) 24815

Best Of The Blues (Pair) 11140 ✻

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Oklahoma!/Original Cast (MCA) 54115

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Jimi Hendrix: Electric Ladyland (Repnse) 23362

James Galway & Henry Mancini: In The Pink (RCA) 51758

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Another Bad Creation: Coolin' At The Playground (Motown) **10456**

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Michael Feinstein: The MGM Album (Elektra) **10699**

Hank Williams, Jr.: Pure Hank (Warner/Curb) **60351**

Dionne Warwick Sings Cole Porter (Arista) **53326**

Moody Blues: Days Of Future Passed (Threshold) **44245**

Irving Berlin: Always (Verve) **00808**

Bread: Anthology Of Bread (Elektra) **63386**

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Johnny Gill (Motown) **00738**

Alabama: Pass It On Down (RCA) **00531**

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Best Of The Bubblegum Years (Buddah) **24141**

Vincent Herring: American Experience (MusicMasters) **83701**

The Robert Cray Band: Midnight Stroll (Mercury) **73659**

The Jeff Healey Band: Hell To Pay (Arista) **00544**

Amani A.W. Murray (GRP) **03669**

The Who: Who's Better, Who's Best (MCA) **00790**

Morrissey: Bona Drag (Sire) **00578**

Vanilla Ice: To The Extreme (SBK) **24689**

Ratt: Detonator (Atlantic) **63335**

Rod Stewart's Greatest Hits (Warner Bros.) **33779**

Don Henley: Building The Perfect Beast (Geffen) **50129**

Classic Marches/Slatkin (RCA) **00996**

Fine Young Cannibals: The Raw & The Remix (MCA) **53904**

Peter, Paul & Mary: Flowers & Stones (Gold Castle) **64074**

The Alarm: Standards (I.R.S.) **24765**

John Cougar Mellencamp: Big Daddy (Mercury) **80064**

10,000 Maniacs: Hope Chest (Elektra) **44340**

Bob James: Grand Piano Canyon (Warner Bros.) **04899**

Steve Winwood: Refugees Of The Heart (Virgin) **54232**

Dread Zeppelin: Un-Led-Ed (I.R.S.) **63594**

Tone-Loc: Loc-Ed After Dark (Delicious) **01033**

The Neville Brothers: Brother's Keeper (A&M) **63513**

Whitney Houston: Whitney (Arista) **52854**

Bonnie Raitt Collection (Warner Bros.) **00569**

The Best Of ZZ Top (Warner Bros.) **24040**

Jazz Classics (Compose) **10460**

Kik Tracee: No Rules (RCA) **10719**

Patty Loveless: On Down The Line (MCA) **00553**

En Vogue: Born To Sing (Atlantic) **14187**

Slaughter: Stick It To Ya (Chrysalis) **42308**

The Oak Ridge Boys: Unstoppable (RCA) **64423**

Marty Stuart: Tempted (MCA) **70076**

George Strait: Greatest Hits, Vol. 2 (MCA) **63635**

Deep Purple: Slaves & Masters (RCA) **11145**

The Moody Blues: Greatest Hits (Threshold) **34284**

Madonna: I'm Breathless (Sire) **00572**

Tommy James & The Shondells: Anthology (Rhino) **44185**

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AJTFZ AS

funk clothing stores, past Citrus—its more established competition—Patina's stuccoed facade emerges, unannounced, from a fringe of papyrus trees. Stepping inside is like slipping

PATINA

into an Armani suit: the decor of muted grays and tans and bare paneled walls is casual if spare, its cool severity relieved by a lone yellow orchid at each table. In the smoking section, no one is smoking.

The food, too, is immaculate. The two-course set lunch ($18) is a deal, as is the spa lunch, where, as the menu points out somewhat obscurely, "culinary skills and less calories meet." The latter option might offer, for example, a salad of fennel, red onion, red leaf lettuce and orange and grapefruit sections in an orange and olive oil dressing, followed by a generous portion of lightly seared yellowtail in vinaigrette, on a bed of diced asparagus, carrots, scallions and tomatoes.

But as most of the mid-day offerings are suitably healthful and well-priced, you needn't confine yourself to set menus. Caesar salad ($5.75/$11) comes crisply groomed and aggressively dressed. Scallop roll ($8.50) is Splichal's trademark demonstration of California cuisine at its freshest: huge sea scallops, perfectly underdone, are wreathed in spinach leaves and thin potato slices, and finished with balsamic vinegar-spiked brown butter. Among the traditional dishes offered as weekly specials, the chicken roasted with potatoes and pearl onions in a sauce of stock, mustard, garlic and herbs is—in a word—sensational ($13).

For dessert, you might have the velvety crème brulée with corn niblets, or the individual rhubarb pie with cinnamon-flavored ice cream, but I'd order the chocolate croissant bread pudding, all warm and runny with custard, again and again.

The one hitch at Patina is the wine list, which, though impressively long on flashy names and price tags, offers a scant handful of half-bottles. A wiser bet, particularly for lunch, is to order from the short list of wines by the glass.

(5955 Melrose Ave., Hollywood. Open Mon.-Thurs. 11:30 a.m.-2:30p.m. and 6-9:30p.m.; Fri. 11:30a.m.-2:30 p.m. and 6-10:30 p.m.; Sat. 6-10:30 p.m.; Sun. 6-9:30 p.m. Major CC accepted. 213-467-1108.)

When ***Locanda Veneta*** opened a sister restaurant, Ca'Brea, in May, first night seating was sold out in a matter of hours. Such is the devotion of the Locanda groupie. The food—Northern Italian classics—is quite good and moderately priced, the service competent if perfunctory. So I offer this recommendation, though with the same caveats everyone else issues about this outpost of chic: 1) reserve well in advance, particularly if you prefer to dine between 6:30 p.m. and 9:00 p.m.; and 2) if you want a romantic interlude, book elsewhere. What with the recorded music, the open kitchen and the thigh-to-thigh seating, the noise in this 45-seat restaurant is positively gut-roiling. One habitue explained, "Noise is like smog—you get used to it. I saw Mel Gibson there last week." The strangers to my left, with whom I became best friends over the course of the meal, screamed enthusiastically above the din, "It's so New York."

Still, you can't fault the country-style chicken soup, thick with potatoes, corn and diced chicken ($6.75). Shrimp salad with arugula is laden with a dozen fat shrimp and bathed in a laid-back olive oil and lemon vinaigrette ($7.95). A large veal chop, broiled rare and moist and scented with rosemary, comes with spinach, carrots and roast potatoes, all packing garlicky heat ($19.95). Fettuccine with braised chicken and mushroom sauce is a tad dry but flavorful; risotto with herbs and porcini mushrooms is so woodsy and rich it must be shared ($12.50).

Toward the end of the meal, my pal at the next table wrapped his arm around my shoulder and breathed, "Get the tiramisù." At least I think that's what he said. In any case, like the other dishes hurtling out of the kitchen, this dessert turns out to be a fine rendition of an old favorite. A seriously dense vanilla crème custard, served with chocolate or caramel sauce, is even better (both $4.95). The house list features wines from California and Italy at commendably gentle markups—most under $30.

(8638 West 3rd St., West Hollywood. Open Mon.-Fri. 11:30 a.m.-2:30p.m. and 5:30-10:30 p.m., Sat. 5:30-10:30 p.m. Major CC accepted. 213-274-1893.)

In a town consecrated to hype, it

Jackie Collins lied to us. To keep up with the food scene in L.A., you don't need a bankroll, a couturier, a set of implants or a high recognition factor. What you need is wheels.

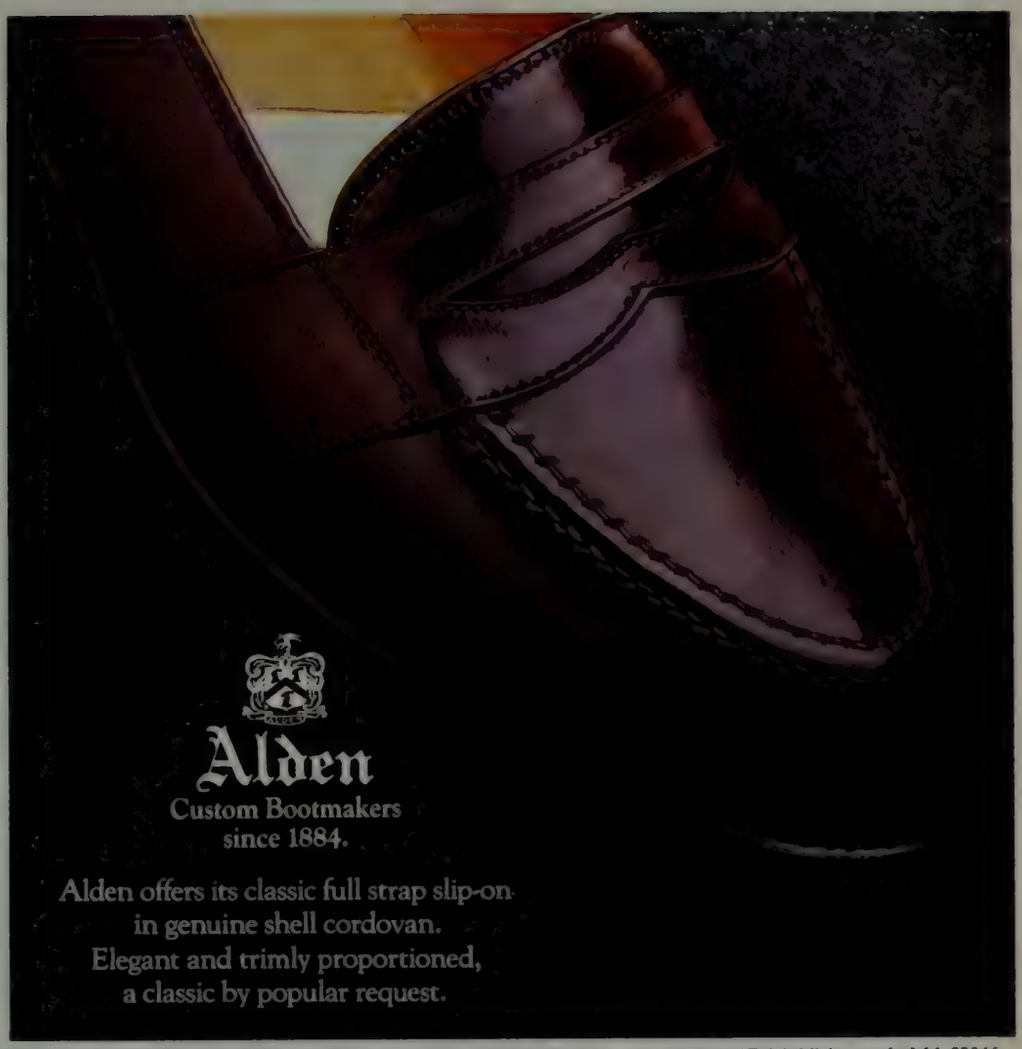
Matsuhisa

omes as no surprise that chef Nobuyuki Matsuhisa summarizes his rave reviews on the cover of his novella-length menu. Here, however, the product lives up to its advance press. ***Matsuhisa*** is to raw fish what Robuchon is to truffles, and he's got the 23-page list of dishes to prove it.

Working the room while his five sous-chefs tend the sushi bar of this seeming little restaurant, Matsuhisa says his "gourmet Japanese cuisine" has been influenced by French, Italian and Chinese sources, with a dash of salsa thrown in for good measure. A signature dish—Dungeness crab topped with smelt roe and broiled with a spicy cream of mayonnaise and red chili ($12)—attests to the success of the multicultural approach. Another popular special, thick filet of black cod in a miso marinade, is broiled just to the point of opacity, its dark glaze nutty and sweet ($10). The menu also offers complete tempura, teriyaki and sashimi dinners, including appetizer, soup, salad and rice, at $18-$21.

But the way to go here is to let the chef stun you with a series of small dishes, until you tell him to stop. At upwards of $10 a hit, the tab climbs, but the extraordinary quality and inventiveness of the selections more than merit a spree. A typical procession might include a salad of mixed greens with tuna sashimi and the chef's soy sauce dressing (on sale, along with his pepper sauce, for $6 a bottle); translucent slices of scorpion fish and julienned scallion steamed with sesame oil and ginger; broiled tiger shrimp and mint on a bed of shiitake mushrooms, with dollops of caviar and spicy cream; yellowtail (slightly overcooked) and silken seaweed; toro tartare garnished with sevruga caviar, encircled by a sliced cucumber fence and pooled in eye-tearing wasabi sauce. The natural accompaniment is a pitcher of iced saké (from $11 to $20.50), but you may want to follow local practice and bring your own bottle of Champagne ($10 corkage fee; see below).

(129 North La Cienega Blvd., West Hollywood. Open Mon.-Fri. 11:45 a.m.-2:15 p.m. and 5:45-10:15 p.m., Sat.-Sun. 5:45-10:15 p.m. Major CC accepted. 213-659-9639.)



For complete store listing and illustrated brochure, write: Alden Shoe Company, Dept. 9F, Middleborough, MA 02346.

LOCAL KNOWLEDGE

DINING HOURS: In general, L.A. is an early eating town. The most frantic dinner hour is still 7:30-8:30 (advance reservations for peak hours are a must), but many restaurants begin serving at 5:30 or 6:00, and although you won't be chic at that hour, you won't be alone, either. The down side is that most restaurants close by 10:30 or 11:00. Late-night dining is tough to come by.

DRESS: Laissez-faire: dress is unusually casual for a city this size, few places require tie and jacket.

PLUS: Most restaurants, even those with wine lists, allow you to bring your own wine for an $8-$10 corkage fee per bottle (the $17 tariff at Patina is a notable exception). **MINUS**: The legal blood alcohol level for California drivers has recently been lowered to under .08, so know when to switch to Perrier.

IF YOU BYO: *The Wine House*, a warehouse-style store in West L.A., offers perhaps the broadest and deepest selection of wines at competitive prices ***(2311 Cotner Ave., West L.A. 213-479-3731).*** For the old and rare (and costly) bottle, try ***The Bel-Air Wine Merchant (10421 Santa Monica Blvd., West L.A. 213-474-9518).***

AMY TUCKER *is a professor of English at Queens College, CUNY.*

Dr. Stereolove

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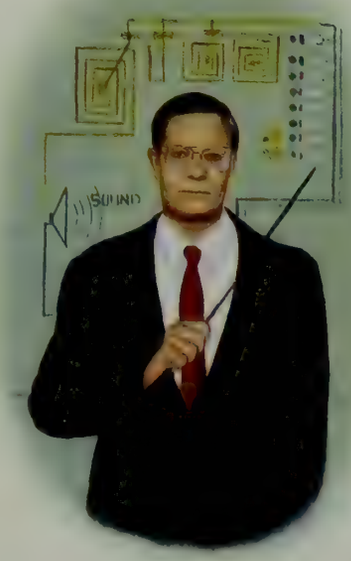

. . . . .

By Anthony Cordesman

Let's suppose that half an hour of non-technical tinkering could vastly increase the performance of your stereo set. Let's also assume that the same advice can tell you whether it is worth your time and money to upgrade a stereo or buy a high-cost system. Let's also assume that some of the following is advice most dealers and manufacturers won't give you—largely because long experience has taught them never to argue for stereo quality over room decor.

If you already are an experienced audiophile, much of this advice may be superfluous. Unfortunately, however, most users lack such expertise, and far too many home stereo systems are now the audio equivalent of a self-inflicted wound.

I'd suggest that you begin with two tests of your system that many audiophiles fail to make, and that are critical to getting good performance. The first test is "speaker phase" or polarization. I find that in about 15% to 20% of the homes I visit, the wires connecting the amplifier or receiver to one speaker are reversed from the other speaker. Amplifier and speaker leads are polarized in exactly the same manner as a battery. The red "plus" lead from each channel of your amplifier must be connected to the red "plus" lead on each of your speakers. If these leads are not wired this way, one speaker is canceling much of the bass output from the other, and the stereo sound will wander all over your listening room.

The second test only applies if you have a cassette or open reel tape deck, or a phono or turntable unit, and it, too, is very simple. If you do not clean and demagnetize your cassette or open reel tape deck regularly, it's probablethat the resulting performance is terrible. Any good audio dealer sells the necessary cleaners and demagnetizers, and failing to use them is roughly equivalent to driving for several months without cleaning your windshield.

If you have a phono unit, check the stylus. If it appears dirty, you need a good stylus cleaner—preferably the products made by Stylast or Discwasher. If it appears bent or is not pointing straight down when you look at the tone arm from the front, you need to have your dealer check out the unit. Electronics rarely need adjustment, but there isn't much point in trying to improve the quality of your system if you rely on a turntable and don't take proper care of it.

My real point here, however, is to get you to pay proper attention to where you put your speakers. In some 20 years of giving advice on stereo and high fidelity, I have found that an overwhelming majority of owners place their speakers so badly that they have no real idea of what their equipment, CDs, records and tapes can really do. In fact, most owners have never heard real stereo in their home!

Even the most omnidirectional speaker systems will not produce realistic stereo effects—and properly place voices and instruments from left to right, and back to front—unless the speakers are placed in the right kind of triangle relative to your normal listening position.

Assuming you have a normal stereo, you *must* place your listening position at the apex of a triangle where the left and right speakers are placed at the other two angles.

In most home installations, the speakers should be around four to six feet apart, and the listening position should be at the end of an isosceles triangle about eight to nine feet from either speaker. The installation will sound best if the speakers are set far enough apart to produce a wide "sound stage," but close enough together so there is no hint of a hole in the middle and you get good center-

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fill. This always takes a few minutes of experimentation to get right, but it does as much to focus stereo sound as focusing a camera does to get a clear picture.

I realize in giving this advice that it may be asking you to declare war with your decorator, and pick a fight with your wife or significant other. This, however, is not an area where you can really compromise. Stereo sound is designed to be reproduced

You will never know real stereo if your speakers are incorrectly placed.

in this way, and in no other. You will never know what your system can do, or what stereo really is, if you have the speakers off to the side, placed to suit the furniture, at diagonals, or in any other weird locations that are common in so many homes.

For similar reasons, you need to keep the line-of-sight path between the speaker midrange and tweeter and the listening position unobstructed by furniture and other ob-

I realize that in giving this advice it may be asking you to declare war on your decorator.

This, however, is not an area where you can compromise.

ts. Any object—even a plant—at comes between the high-frency driver in your speaker and e direct path between that speaker d your ear will also affect the balce of frequencies you hear.

If you have small- or mediumzed speakers that are not designed rest on the floor, you also need a eaker stand. A really solid stand at firmly anchors to the speaker d floor, and that raises the entire eaker without tilting it, is best.

Even seasoned audiophiles tend to ut speakers in a bookshelf or too ear a rear or side wall, and some ommit the sin of sticking them in a orner. This usually does serious amage to sound quality. With the xception of a few specialized deigns by Allison, Bose and Snell—nd some older corner enclosures—ll speakers should be at least a foot rom any wall and ideally two to hree feet.

Two factors are at work: putting most speakers near a wall adds so much reflected sound that it "smears" the treble and midrange information, and also sharply degrades the bass response. Any apparent rise in bass energy will normally come because such placement exaggerates the bass resonances of the room and speaker at a few low frequencies at the expense of drastic cuts at other frequencies.

The fact that speakers are small enough to be put on wall shelves or large bookshelves is also no reason for putting them there. And as for corner placement, you simply cannot win unless you have one of the few surviving corner horns and listen to mono, or one of the Klipsch systems designed for corner placement of the two main speakers with a third speaker for centerfill. Both speakers will tend to "boom," and be too far apart to provide realistic stereo.

For similar reasons, you should think long and hard before building a speaker into a wall unless you want nothing more than background music. Let me put this bluntly: there is no way to make a good full-range speaker in a relatively tiny enclosure.

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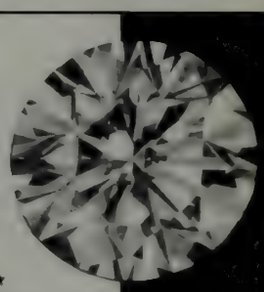

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If you are willing to place your speakers where they should be, you can get a further improvement in sound if you also set the tone controls at their middle or neutral position, turn off your loudness control (which boosts the bass), and then actually adjust your balance control so that the left and right channel have the same apparent output when you sit in your normal listening position.

In 90% of all home stereo systems, the tone and loudness controls can only alter the sound in ways that distort frequency and response and hide musical information. While most low- and mid-priced equipment have such controls, they are a vestige of days when stereo equipment was far less accurate then it is today. Few, if any, real audio experts ever use tone and loudness controls, and most really high-priced audio equipment does not have them.

The balance control that most consumers never use, however, acts as a sound stage control in a system where the speakers are in the proper location. Minor adjustments to bring both speakers up to the same level at your normal listening position can suddenly expand the sound stage from left to right, and give you more depth information.

While some of this advice may initially seem a bit demanding, I can promise it will pay off. A stereo system has to be properly placed and set up to work, and there simply is no way to get around this. Serious listening requires you to make some tradeoffs with room decor. The compensation is a major improvement in the accuracy of your system, and for no cost at all.

You also really should try these adjustments, and re-listen to your system, before you rush out to buy a new system or components. In so doing, you will learn whether you are willing to set up your system in a way that justifies spending a lot of money on new equipment, and you will have some basis for judging whether what you hear at a dealer's is any better. There is no point in comparing a badly adjusted home system to a dealer demonstration. You will begin the chase without having any idea of what you are hunting for.

ANTHONY H. CORDESMAN *is Assistant for National Security to Senator John McCain and Adjunct Professor of National Security Studies at Georgetown University. He is a contributing editor of* Audio *magazine and* The Absolute Sound.

A stereo system has to be properly placed and set up to work, and there simply is no way to get around this.

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LA VIE SCIENTIFIQUE

Ryder on the storm— but business as usual for the PGA of America.

The Golfbag

. . . . .

By James Y. Bartlett

In Late September, the international Ryder Cup matches between the best professional golfers of Europe and Great Britain and those of our own PGA Tour will be staged on a golf course that existed only as a gleam in its architect's eye two years ago.

While the Ryder Cup will apparently come off without a hitch—the last nail has been driven in the new clubhouse, and the course has grown in right on schedule—the story of how and why the PGA of America made the decision to hold the matches at Kiawah Island, S.C., is the latest in a long line of, well, bogies made by the organization.

The PGA of America was founded 75 years ago as the national trade organization of golf professionals. While staging golf tournaments has always been one of the main functions of the PGA, the organization has been, first and foremost, operated by and for America's club professionals: the guys who schmooze with country club members, selling them clubs, balls, shirts and half-hour lessons on the practice tee.

It does not take, generally speaking, the brain of a rocket scientist to be a club professional. Nor, despite the best efforts of the PGA of America to instill good business practices among the membership, is your typical club pro a budding Sam Walton.

So when some of these not-quite business whizzes get elevated into positions of national leadership in the PGA of America, well, it's no wonder the history of the organization is replete with bonehead deals. For instance:

Losing the Tour

The PGA used to operate the pro golf tour. In the late 1960s, television networks began throwing money at the touring pros, sponsors began to get very interested in golf as a merchandising vehicle, and things were pretty rosy . . . for the PGA of America, which siphoned off a good percentage of the cash from the tour to pay for programs and benefits for the larger number of club pros.

In 1968, though, the fertilizer hit the fan. Over a hundred touring pros headed by Jack Nicklaus, announced their intention to bolt the PGA and set up their own tour. The incentive was simple—money. The touring pros correctly reasoned that they had the upper hand; they were the draw, after all, not the parent organization. (And how right they were: in 1968, a 45-event professional schedule featured slightly over $5 million in purses. By 1990, a 44-event PGA total tour purse had leaped to over $46 million. In 1968, Billy Casper was the leading money winner among the pros with $205,168; in 1990, leader Greg Norman bagged $1,165,477. And the richest tournament, the Tour Championship, now offers a top prize of $360,000.)

Belatedly, the PGA of America lurched into action, and called a truce by setting up the Tournament Players Division and hiring former USGA executive director Joe Dey as commissioner.

Dey held things together, and the players, seeing more money funneled back into purses, went along—for a time. But by 1974, it was clear that a formalized separation was needed: the PGA of America, an organization of club professionals, was just not the right entity to operate a full-time, big-money golf tour.

Thus, the PGA Tour was established. Deane Beman took over as commissioner, and hitched golf to the team of big-money horses which hasn't slowed down yet. The PGA of America went back to running the annual trade show, the PGA Championship, the Ryder Cup, and a business school for new members.

Losing Their Shirts

In the early 1960s the PGA was looking for a new permanent home, relocating from Chicago to the warmer climes of Florida. Somehow, the PGA got hooked up with developer

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Sandy Lyle, captain Tony Jacklin and Nick Faldo after yet another European team Ryder Cup victory in 1989.

John D. MacArthur. For MacArthur, the prestige of having the national headquarters of the PGA on site would help him sell lots. The PGA got some 10,000 square feet of office space for an eight-year lease.

In 1971, as part of the deal, the PGA brought its national championship to Florida, switching from the traditional late-summer dates to a weekend in February, when the tourists would be in town. Two years after that tournament was held, the lease with MacArthur expired, and the developer told the PGA, in effect, "Thanks a bunch but hit the road."

For eight more years, the organization worked out of various south Florida office parks until a new generation of leaders decided it was time to try again.

In 1981, a new deal was signed with developer E. Lloyd Ecclestone Jr., who owned a 2,300-acre tract of scrub swamp in Palm Beach Gardens, west of the Turnpike. Today, the PGA of America calls home the PGA National complex: five golf courses, a hotel and convention center, and lots of real estate.

Again, part of the contract called for the staging of the PGA Championship, the weak sister of golf's four majors (despite "Long John" Daly's recent celebrated victory). This time, however, the PGA of America no longer controlled the tour, and couldn't switch the tournament from its scheduled August dates. South

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Florida in August is not a pleasant place to be. The 1987 PGA Championship at PGA National was a disaster. The greens were ravaged by a summer fungus just before play began, and the players beset with unbearable heat and humidity.

But Ecclestone got his national exposure, and, so far at least, the PGA of America hasn't been thrown out of its office space.

Now comes the latest of the PGA's business deals, and the explanation of why the prestigious Ryder Cup is being played on a brand-new, never-before-tested golf course.

Ernie Vossler and Joe Walser Jr. grew up in the game together. They both played the tour for a time, but decided they'd rather be club pros. And having been both, they knew how to work with the PGA to make some money.

Vossler's and Walser's firm, Unique Golf, was purchased in 1974 by Landmark Land, which built such well-regarded places as Carmel Valley Ranch, Oak Tree, La Quinta, Mission Hills, and, in 1986, PGA West. Later acquisitions included Palm Beach Polo and Country Club and Kiawah Island in South Carolina.

To ingratiate themselves with the PGA of America, Vossler and Walser volunteered many of these fine courses for the lesser stratum of PGA-sponsored tournaments: the PGA Club Pro Championship, the Wilson Club Professional, the PGA Cup Matches, etc.

As *quid* for this *quo*, the PGA responded by awarding the PGA Championship of 1988 to Oak Tree in Edmond, Okla., and has scheduled it there again in 1994.

The PGA of America still controls the biennial Ryder Cup competition due mainly to an oversight by the PGA Tour's commissioner Deane Beman. In 1974, when Beman took over and divided up the spoils with the PGA, the Ryder Cup was an event about as interesting and marketable as, in Beman's eyes, a series between the Oakland A's and the Taiwan Little League champs. Every two years (since 1927), the best players on the U.S. tour would get together with some no-names from Great Britain and beat the tar out of them. Big deal, Beman thought, and told the PGA they could keep it.

Bad mistake. In 1978, Britain asked if it could include players from the European tour on its team. Sure, said the PGA, why not? Spaniard

In short, the entire decision-making process for selecting a site for the 1991 Ryder Cup could be called crass, craven and ill-considered.

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Seve Ballesteros came on in 1979, German Bernhard Langer in 1981.

In 1983, the European team came within one point of a huge upset. In 1985, Ballesteros, Langer, Nick Faldo and Sandy Lyle led a team that cleaned our clocks, and in '87, they repeated, convincingly. Two years ago, at the Belfry course in England, Raymond Floyd captained the American team that tied the Europeans; they kept the Cup, but we considered it at least a moral victory.

Now, with the Europeans on a roll, all of a sudden the Ryder Cup matches stand for national pride, inherent golfing superiority and other issues that make for great drama.

The interest is so great that the PGA decided to move the event from the California desert, where it was originally scheduled to be played, to an Eastern time zone in order to attract better TV coverage, especially from European networks.

There are scores of prestigious, highly-regarded golf courses on the Eastern seaboard, venues that would add the proper note of historical reverence to the '91 Cup. Pine Valley springs to mind, as do Shinnecock Hills, Merion, Winged Foot, Baltusrol . . . the list is long.

Faldo gives current Masters champion Ian Woosnam some advice on the break of th green during the '89 Cup.

But with the sound of back-scratching ringing in their ears, the higher-ups of the PGA of America elected, in the spring of 1989, to stage the tournament on an un-built

It is often said that

Hong Kong looks best from the water.

THE TERRACE SPA POOLS

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Bernard Gallacher and Dave Stockton, captains, respectively, of the '91 European and American Ryder Cup teams.

un-named and un-known golf course in the Carolina Lowcountry.

Landmark Land, you see, had recently purchased the Kiawah Island resort outside Charleston, a pleasant, family-oriented beach getaway with three resort-type golf courses, and had just hired its favorite golf course architect, the controversial Pete Dye, to build a fourth.

Sounds good to us, said the PGA, and awarded the Ryder Cup to a golf course which at the time had barely been sketched out on paper. And, to put the final nepotistic cap on the deal, the PGA replaced as team captain Raymond Floyd, who had guided the '89 team to a hard-earned tie, and instead appointed Dave Stockton, a journeyman pro who just happens to be under contract to represent . . . Landmark Land.

In short, the entire decision-making process for the 1991 Ryder Cup could be called crass, craven and ill-considered. But, for the PGA, at least consistent.

As for the rest of us, we shall await, with the same trepidation one feels watching a yip-inflicted golfer try to knock down a three-footer, the next crucial business decision from the PGA of America.

JAMES Y. BARTLETT'S *golfing murder mystery,* Death Is A Two-Stroke Penalty, *was recently published by St. Martin's Press.*

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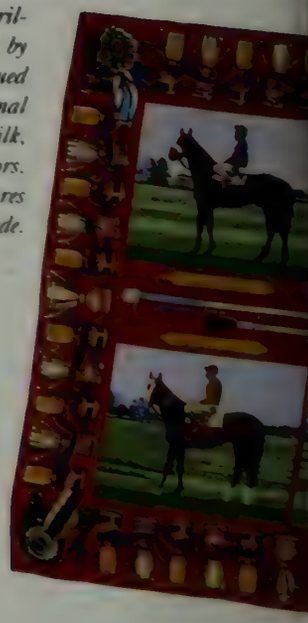
. . . . .

By Mark Grischke

Racing silks: the brilliant Derby *scarf, by Gucci, from a reissued collection of original 1950s designs. All silk, in a stable of colors. $195. At Gucci stores nationwide.*



Puppy love: cocker spaniel pups decorate a luxurious 2-ply cashmere sweater by Ballantyne. $1,350. At Cashmere Cashmere stores in New York, Chicago and Short Hills, NJ.

Photographs by Roger Cabello

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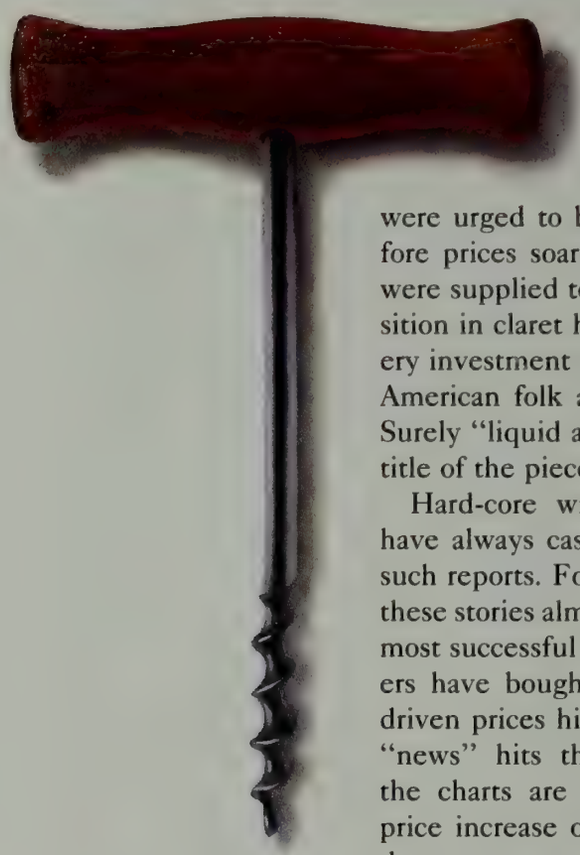


Grape Juice

An En Primeur Primer Or, The Future Is Not What It Used To Be

. . . . .

BY STEPHEN TANZER

CHANCES ARE, the last article about Bordeaux futures you saw in a newspaper or business magazine was written by an armchair journalist who wouldn't know a Margaux from a margarita. Most likely you were urged to buy immediately before prices soared. No doubt charts were supplied to illustrate how a position in claret has outperformed every investment from the S&P 500 to American folk art through the '80s. Surely "liquid assets" figured in the title of the piece.

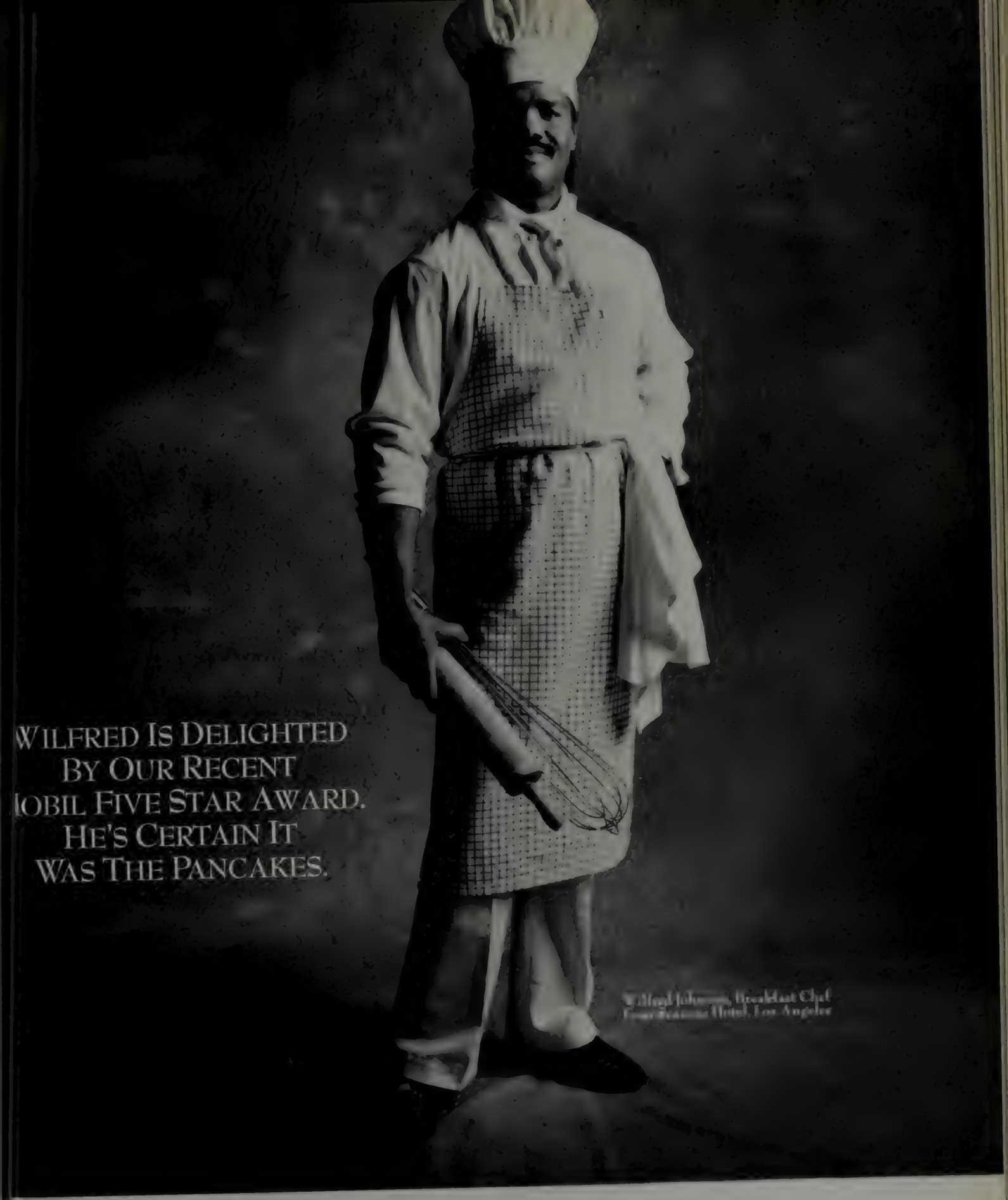
Hard-core wine types, however, have always cast a skeptical eye on such reports. For one thing, because these stories almost always follow the most successful vintages, wine insiders have bought all they want and driven prices higher long before the "news" hits the street. Moreover, the charts are misleading: a 100% price increase over just a few years does not necessarily translate into a quick killing for the speculator. Merchants may claim that it is easy to unload your wines profitably, but in many states there are fewer impediments to selling your children. The truth is that you're not going to get anything near the prices shown in these charts, whether you dispose of your inventory legally or otherwise.

As a result, some collectors eschew pre-arrival buying entirely; they maintain that they can nearly always purchase the wines they want at virtually the same *real dollar* prices several years down the road. Even if they must pay a slight premium for their favorites, at least they haven't run the serious risk of being saddled with disappointing duds. Still, many American oenophiles regularly play the futures game. The question is, who wins?

Where do futures come from? In the spring following the harvest, most château proprietors offer at least a portion of their new vintage to Bordeaux's *négociants*, or merchant/traders—not a bad arrangement for the producers since they get paid for their wine a year or more before it's bottled. The price of this first, or *en primeur*, offering reflects market conditions at the time even more than it does the quality of the vintage: was the harvest huge or are stocks limited? Are the major claret-consuming nations (e.g., England, the U.S., Belgium, France) in recession or are they flush with cash? Are wine pundits already proclaiming this the vintage of the millennium? If early demand appears strong, château owners are likely to set their prices high, or offer a smaller percentage of their production at this opening level in the hope of releasing second and even third *tranches*, or portions of the crop, at escalating prices.

Many *négociants*, in turn, lower their own cost of financing the unfinished wine by pre-selling it to *their* clients: to importers and wholesalers, or directly to retail accounts. Some wine merchants then offer special pre-arrival prices to their customers, for payment up front. In short, everyone's objective is to limit his own exposure by convincing you, the loyal reader, to assume the expense of maturing the young wine. In return, vendors offer buyers a shot at what is likely to be the lowest price for the new vintage.

When do futures make sense for a well-heeled consumer like me? Futures make little sense for consumers unless they provide the chance to purchase top-notch wines from an excellent vintage . . . *and only if* the wine is likely to cost *at least* 20%-25% more when it arrives in the U.S. 18 to 24 months later. Otherwise you will have gained nothing by tying up your dough. Obviously, the price of Bordeaux on arrival will always be subject to numerous variables, including the reputation of the vintage at the time, the



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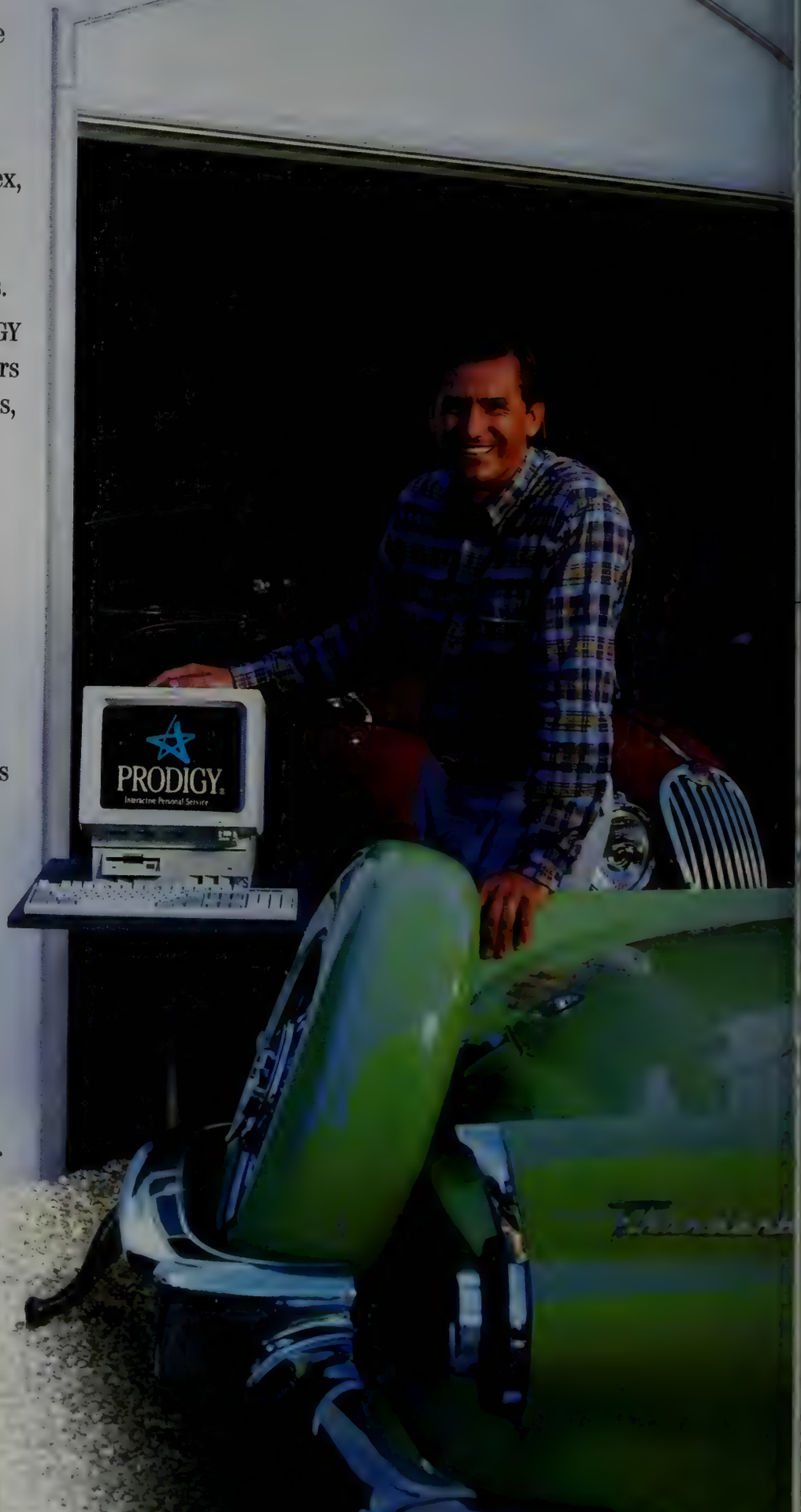

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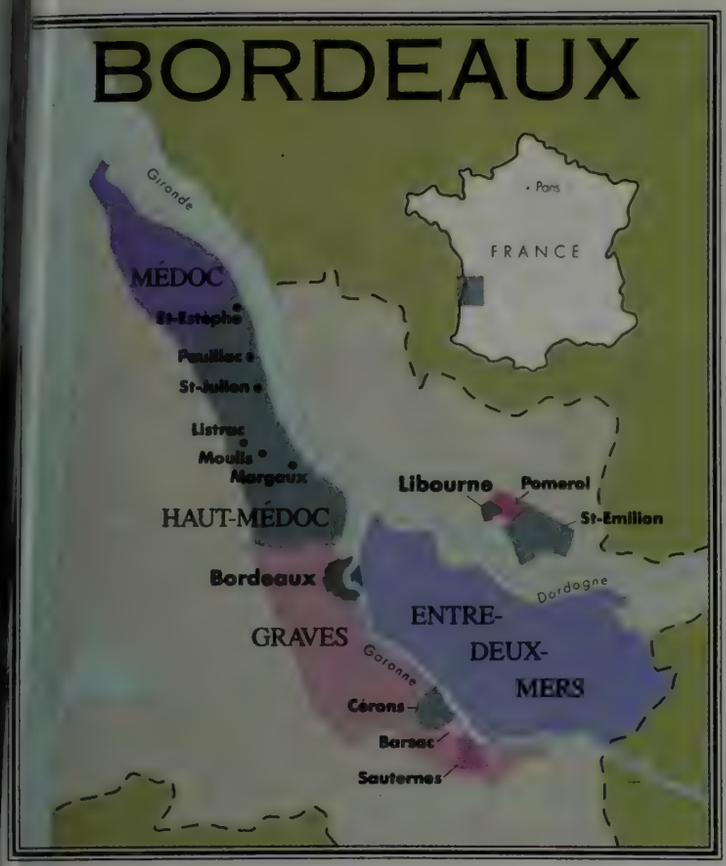

Buying futures may be the only way to guarantee getting the scarcest items in ballyhooed vintages, particularly the increasingly popular wines from Pomerol.

size and quality of intervening harvests, and the vagaries of exchange rates, so there will always be a degree of risk involved in paying for Bordeaux in advance.

There is one important exception to the above rule: buying futures may in some instances be the only way to guarantee getting the scarcest items in ballyhooed vintages, particularly the increasingly popular wines from the small right-bank commune of Pomerol (see map).

There's another, less tangible advantage to buying *en primeur:* you'll receive your wines soon after they arrive in this country, and before they can be mistreated by wholesalers or retail shops. For example, East Coasters who collected their '85s when they arrived in the spring of '88 and stuck them in a cool cellar have lovely drinking to look forward to. But some '85s I've sampled that sweated out the torrid summer of '88 in an un-airconditioned New Jersey warehouse have melted down to prune juice.

Should I be jealous of this guy at the office who brags about all the futures he snapped up in the '80s? Yes and no—an answer that calls for visual aid. In the exhibit on the following page, I've analyzed the price behavior of four very good to outstanding vintages of the '80s that have been in the retail market for at least a couple of years. I've used the consistently excellent Château Margaux as a representative Médoc first growth, and Château Ducru-Beaucaillou as a proxy for the group of second-growth overachievers often referred to as "super-seconds."

As the charts show, if your coworker is a collector-*drinker* (i.e., one who buys for future consumption rather than resale), he has been rewarded for purchasing the '82s, '83s and '86s at the outset, although only the '82s and the '83 and '86 *first growths* climbed significantly in price between their initial futures offerings and their arrival here. 1985, however, was barely a break-even proposition, considering the cost of tying up funds for two years. More recently, the '88s, which are still arriving at American retail shops, have been a disappointment to *en primeur* purchasers: many of these wines can be found by careful shoppers today for little more than their initial futures prices. The next time your friend starts boasting, tell him you just picked up the '88 Pichon-Lalande for $30 a bottle.

On the other hand, perhaps your friend is a collector-*speculator* who plans to sell his wine. In that case he'll be chagrined to learn his wines will fetch substantially less than the average retail prices shown on the charts. Indeed, he has had little to celebrate since the '82 vintage, a year the wine trade views as an aberration. (It was this vintage that marked a surge in American interest in the wines of Bordeaux, thanks to a unique combination of rave reviews, very low opening prices due a strong dollar, and profligate yuppies.) Except for the 1986 first growths, the collector-speculator would have done just as well with T-bills.

So what about the '89s and '90s? 1989 and 1990 were a pair of hot, dry vintages that yielded many excellent to outstanding clarets in huge quantities. 1989 witnessed the earliest harvest start of the century (the end of August!), and the great ripeness of the grapes triggered enormous trade and consumer interest. The wines opened at record high prices. Even with middlemen taking fat margins, the early demand for the vintage was the strongest since the '82s. Wine available at *première tranche* levels quickly sold out, and prices rose. Since last fall, though, sales have slowed noticeably as buyers have become sated and the uneven quality of the vintage has surfaced. It's difficult to recommend the '89s at their current exorbitant prices.

The equally inconsistent '90s opened 5% to 15% lower than the overpriced '89s in French francs, reflecting fears in Bordeaux that these wines would be a hard sell following the heavy buying of the '89s and given the sluggish economies of most major wine-consuming nations. With apprehensive *négociants,* importers and merchants taking slimmer mark-ups, the '90s opened 15%-20% lower in dollars here than the '89s did a year ago. Despite these more palatable prices, the wine-drinking public has been slow to respond; in contrast to the '89s last fall, most '90s can still be found at opening levels today.

1990 is a vintage to buy very selectively for the moment and monitor

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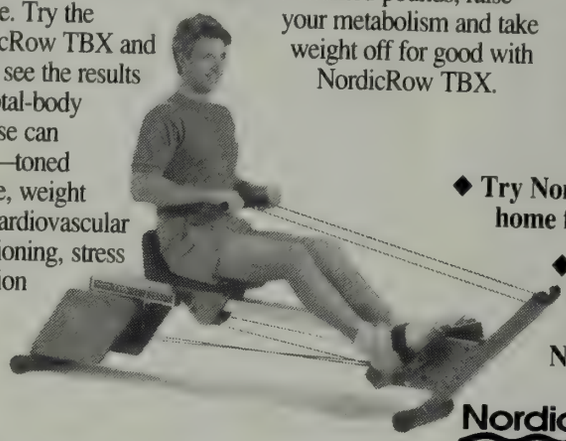

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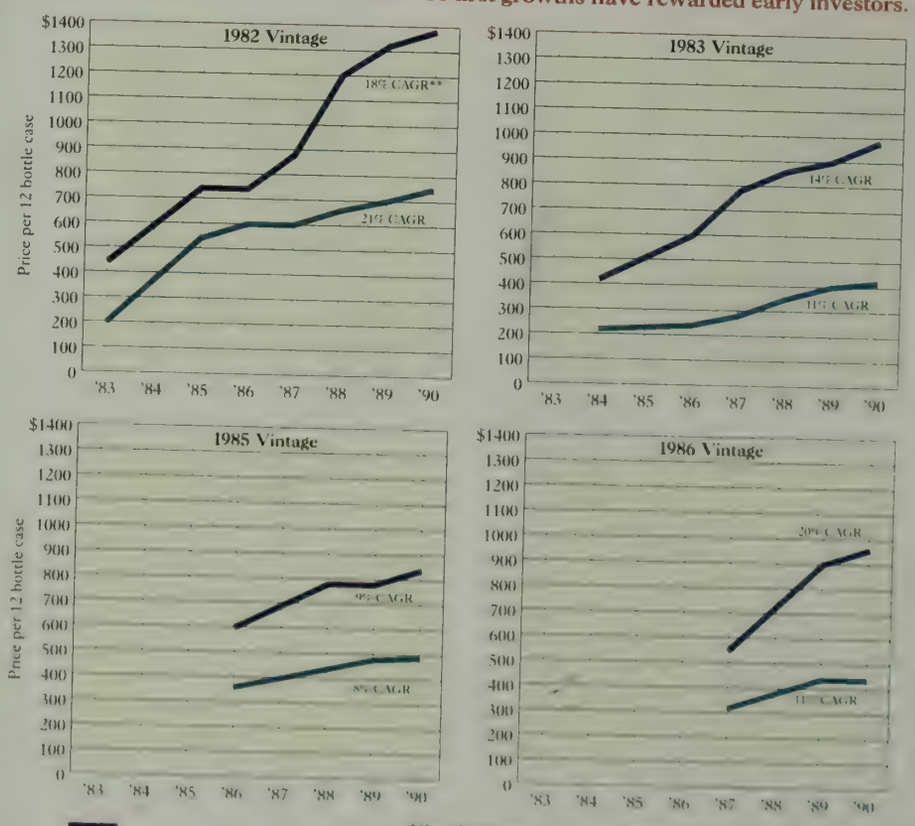
American retail prices* for Bordeaux vintages of the 1980s have moved steadily higher, though only the '82s and the '83 and '86 first growths have rewarded early investors.



*Opening futures prices and subsequent prices in the retail market are an average of the prices listed by three prominent Bordeaux merchants: Park Avenue Liquor Shop and Sherry-Lehmann in New York City, and MacArthur Liquors in Washington D.C.
**Compounded Annual Growth Rate

closely over the coming months. Bordeaux suffered a damaging frost last spring, followed by a late and irregular flowering, and the 1991 harvest, because it will be a late one, will be especially vulnerable to inclement autumn weather. If the '91 vintage is a nonstarter, sales of '90s will almost certainly pick up and prices rise, though there is little reason to believe that this vintage will offer meaningful resale potential in the foreseeable future. My early favorites based on tastings conducted in Bordeaux in late May: Ausone, Canon, Cheval Blanc, Clinet, Cos d'Estournel, La Conseillante, L'Evangile, Lafite-Rothschild, Latour, Léoville-Las Cases, Margaux, Montrose, Mouton-Rothschild, Pétrus, Pichon-Baron, and Trotanoy. Most of these wines are as good as, or better than, the '89s from the same properties, and they are a lot cheaper.

I've studied your charts and I'm going to buy the '90s anyway. Where should I go?

Buy only from a reputable merchant with a track record of delivering the wines he has promised; your wino friends can advise you. Remember, these are the lean years for the retail wine trade in America, and some overextended players won't be around when the '90s arrive in 1993.

And shop around. Prices vary considerably, depending on how and when the merchant must pay for his wine, how many links in the distribution chain he has managed to bypass, and whether he's looking for a quick buck or a loyal customer. Some established retailers who have offered very reasonable futures prices in recent years include MacArthur Liquors, Pearson's and Calvert-Woodley in Washington, D.C.; Yankee Spirits in Sturbridge, Mass.; and The Wine House in San Francisco.

STEPHEN TANZER *is editor and publisher of* The New York Wine Cellar, *a 32-page bimonthly newsletter covering the world's fine wines. Annual subscription: $48. For more information, call 212-777-1006.*

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Last November, *FYI* asked the 200 highest-paid CEOs in America for their cholesterol levels, offering a "lipid-laden" cheesecake to the head honcho with the lowest. An astounding 10.5% responded, and Allen Jacobson of 3M walked away with a full tummy.

But there was one picky apple in our bushel. United Telecom's William Esrey sent us his cholesterol level, but also took us to the woodshed for using a faulty criterion. The total cholesterol level, he complained, is not nearly as useful an index as the ratio of the total to HDL cholesterol (the good stuff). Dutifully, we reported his comments.

FYI's mailbox was soon flooded: "Count me solidly in Esrey's camp. The ratio . . . should have been the basis for your contest"; "This ratio is far more important than the overall cholesterol count"; "Esrey is correct . . . The medical community is moving towards that ratio as a standard"; "Every fairly educated person knows that the plain cholesteral (sic) level is unimportant"; "Your subscribers should see the ratings based on the ratios and not receive a sudden education in emergency surgery as I did."

Though we considered riposting with a snappy "*We* say it's cholesterol, and we say to Hell with it," we decided instead to take our readers' concerns to a few cholesterol experts.

Is total cholesterol the outmoded index some of our readers think? Well, yes; but *it still has its uses*. "There's good, better and best," says John LaRosa, head of the American Heart Association's cholesterol task force. "You've got to have some method of screening people, and the total is as good of a device as we know of."

The National Cholesterol Education Program guidelines recommend total cholesterol "as a triage mechanism," says DeWitt Goodman, director of the Institute of Human Nutrition at Columbia University, and formerly chairman of the expert panel of the NCEP. In a nutshell: adults with a total of 240 mg/dL or higher ("high"), as well as those with a total of 200-239 mg/dL ("borderline high") who also have two of several risk factors (such as hypertension, smoking, obesity or just plain being male), are advised to pursue lipoprotein analysis in order to identify their levels of LDL cholesterol (the bad stuff), HDL and triglyceride. Got all that? Good.

Just how good a *screening* device is total cholesterol? William Castelli, the director of the famous Framingham (Mass.) Heart Study, argues that unless your total is 150 mg/dL or less, you shouldn't use the index to assume anything. "If you have a very high total, you know the odds are diminishingly small you'll have enough HDL to cover yourself," he says, "but between 150 and 250 mg/dL, you really don't have a clue." But LaRosa counters that for most of us total cholesterol "is a pretty good indicator of risk."

What about the ratio of total cholesterol to HDL? "It's a better index of risk than total cholesterol alone," says LaRosa, though he's quick to add, "The ratio is not accepted as the best index by all physicians."

Even Castelli cautions that the ratio isn't the final word. "We would start with the ratio," he says. "It should be under 3.5. But if you're 4.5 or higher you have a cholesterol *problem*, and you ought to find out by having your LDL, triglyceride and HDL looked at."

Is the medical community moving toward the ratio as a standard? Well, as usual, it depends on who you talk to. Castelli believes the ratio has momentum and insists that "LDL is not as good a predictor as HDL, unless we're talking about very high totals." But Goodman's NCEP panel considered the ratio "quite extensively," and concluded it was *not* the best index. "The ratio can give more information, but it can also be more misleading under some circumstances." Better, he says, to look at each risk factor independently. Further, the NCEP recommends emphasizing the evils of LDL over the benefits of HDL because "scientific evidence is strongest that high LDL is a direct cause of atherosclerosis and heart disease."

And you blame *us* for being confused?

—NEAL SANTELMANN

P.S. The winner from our second batch of entrants was John "Yours For Low Lipids" Tirrell, Marine Systems Corp. (95). Frankly, we no longer give a damn about ratios. Mr. Tirrell, your cheesecake is in the mail.

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NEW MAXXUM® 7xi

ONLY FROM THE MIND OF MINOLTA

MINOLTA

Enough Information About Scotch To Order A Drink.

You're thirsty for Scotch and water. But if you just say "Scotch and water," you're taking a chance on mediocrity. Say "Ballantine's and water," and you'll get a smooth, mellow, smoky Scotch with a hint of Island peat and a breath of Highland smoke. Your water will taste a lot better, too.

Ballantine's.
THE TRUE TASTE OF SCOTCH.

Ballantine Scotch Whisky. 43% Alc./Vol. (86 proof) ©1990 Madrigal Wine & Spirits Inc., Los Angeles, CA

Enough Information About Scotch Have A Conversation.

u're out on the town with a friend. But
esitate before ordering the same old Scotch.
ering over the bar, you spot a bottle of
ntine's Finest.

Hmm. I haven't had that in a while."

One of the better blends," your friend says.
mber one in Europe."

o you order Ballantine's and water.

It has 42 different single malts in it," he says.

Really? Does that matter?"

Only if you like your Scotch to be smooth."

You take a sip.

It is smooth. How come it tastes smoky?"

Your friend explains, "That's from Highland
gle malts in the blend. Taste it again. It has an
thy flavor, too."

You do and it does.

"That's peat. From the Scottish islands. See,
th blended Scotch, the single malts are married
gether to enhance each other. But you can still
ste the individual flavors."

"You know too much. How am I supposed to
ep up with that?"

"We have time," he says. "Another round?"

Ballantine's.
THE TRUE TASTE OF SCOTCH.

Enough Information About Scotch To Open A Distillery.

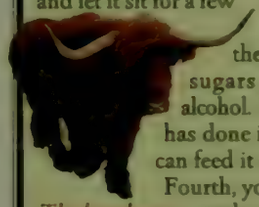
First, you need water. Scotland has more than enough, because it rains so much. And the best, because on its way to the burns and lochs, Scottish water is naturally filtered and purified as it flows through granite or peat.

Aristotle. He would have enjoyed Ballantine's.

Second, you need peat. Peat, to put it delicately, is a layer of compressed vegetable matter covering about 1,700,000 acres in Scotland. That's 11% of the entire country. That's a lot of peat. You can taste the peat in a great Scotch like Ballantine's Finest. What you do is cut it into logs and burn it in kilns to stop the malting of your barley.

Some people are cut out to run a distillery. Some aren't.

Third, you need barley. Barley is one of those grains that thrives where you might think only rocks would grow. Which is why it does so well in Scotland. You malt your barley by soaking it in water, then drying it over the peaty fire. Then you grind it, mix in hot water and let it sit for a few hours. Add a little yeast to the liquid and the sugars turn into alcohol. The barley has done its job. You can feed it to cattle.



The handsome Highland cattle.

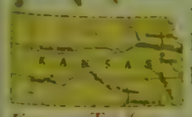
Fourth, you need cattle. Some of the happiest cattle in the world live in Scotland. (Not to mention some of the best tasting.)

Fifth, you need a still. These are the funny looking copper pots without which there would be no Scotch. It is said that Aristotle invented distillation. But sadly, he never lived to taste a fine Scotch like Ballantine's. After distillation, you have whisky. Which longs for barrels in which to grow old.

Save your pennies for a copper still.

Sixth, you need barrels. There aren't many oak trees left in Scotland. At least not enough to age Ballantine's Finest. So you need oak barrels imported from America. Once your Scotch is in the barrels, you need to put them away for a long time.

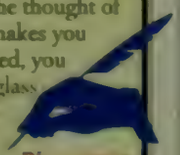
Seventh, it helps to have an ocean. There's a refreshing scent of sea air in a select few of the single malts used in Ballantine's. Some say it creeps into barrels stored near the ocean. In any case, it adds distinction to the Scotch. It may be that Scotland is the best place to make Scotch precisely because there's no point more than 70 miles from the sea. Kansas is not a good place to make Scotch.



Kansas. Too far from the North Sea.

And last, you'll need patience. The only thing left to do is wait. If you want your Scotch to be part of Ballantine's Finest, you'll have to wait quite a while, because we don't blend any malt whisky younger than five years. Patience is essential when starting your own distillery. But, as you've read this far, it would seem that you have a good supply of it.

Whew! If the thought of all this work makes you feel a bit tattered, you might enjoy a glass of Ballantine's Finest. Maybe you don't need your own distillery after all.



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CRR

NINO CERRUTI®

RUE ROYALE

Forbes FYI

Dangerous Sports

Admit it—you've always wanted to tighten the harness, adjust the chinstrap and take a Formula One racing car out for a spin. Or to flirt with nitrogen narcosis in an underwater cave, with the minutes ticking down on your air supply. Or, yes, to fasten bungee cords to yourself and jump off a bridge, with the instructor's reassurance ringing in your ears: "There's never been a fatality in this sport. At least not in the United Staaaaaates. . . "

In the next few pages, we present a few people for whom life wouldn't be worth it without the occasional tang of exhilaration in the mouth: an auto exec who owns the fast lane; a skydiving stock watcher; a piton-packing Hollywood COO. All they have in common is the urge to hang their behinds over the precipice. And not fall off. ■

SON *of* DANGER

What are you going to do with a guy who holds the Connecticut state record for the longest slide after a motorcycle crash? The survivor's record, anyway.

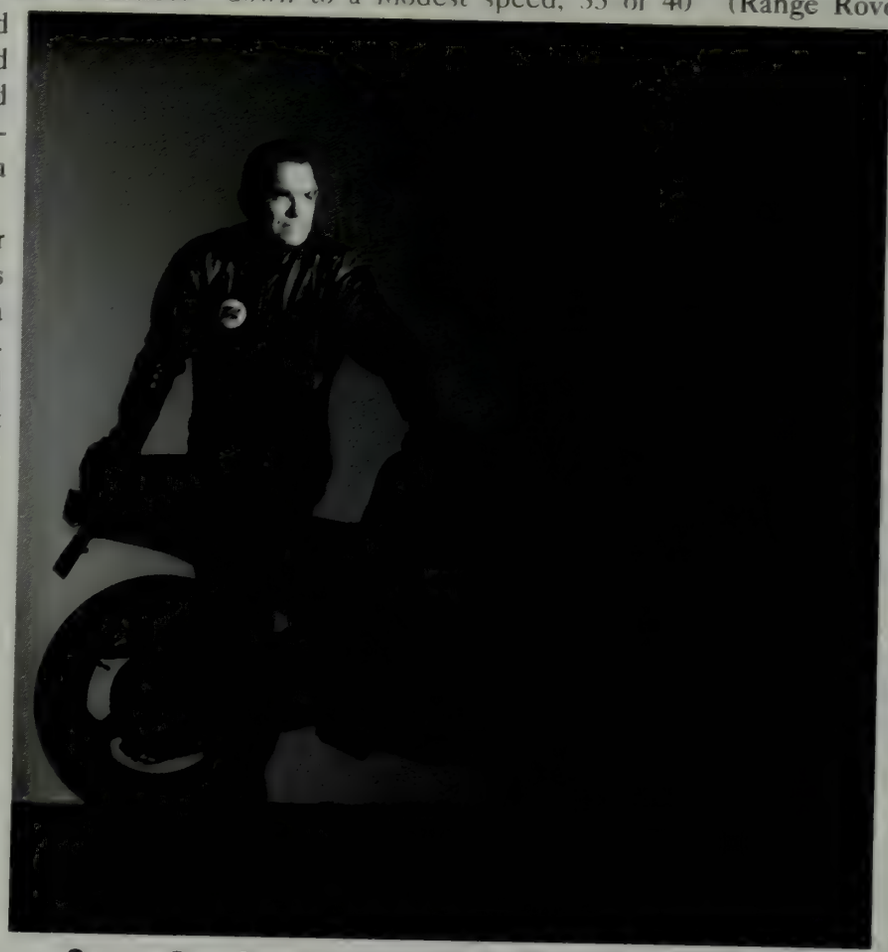
After the first few minutes, I had concluded this wouldn't be too bad—Sinclair was fast, but he wasn't scraping his engine on the ground. The stories I had heard about him and his riding style led me to worry—but, I figured, all for nought. Then he passed the first of that morning's endless series of cars and looked at me in his mirror as if to say, "Well?" Wonderful. Downshifting, the tachometer needle shooting toward the redline, I followed.

Photographs by Michael Thompson

Hell-for-leather: Robert J. Sinclair, the just-retired chairman and chief executive of Saab Cars USA, Inc.

If I didn't keep the bike to the redline coming out of the corners, I had to make up for it in the straightaways. Six thousand rpms in fifth gear translates to, well, pretty fast down two-lane roads. Sinclair—that is, Robert J. Sinclair, the just-retired chairman and chief executive of SAAB Cars USA, Inc.—always stayed in front, casually sweeping through the turns. He was on his slow bike, a BMW R100S, but if he'd been on his fast bike, a hand-built Harris Magnum 3, he doubtless would have vanished down the forested lanes of Fairfield County, Conn., leaving me his dust as a souvenir.

At 59, Bob Sinclair still rides motorcycles with the brio of a Hell's Angel. He admits to having slowed down as he's aged, but imperceptibly—I'll attest. "I drive at outrageous rates of speed," he says, in his calm, deliberate voice. "I drive extremely fast on the highway; I regularly drive to work at 50% above the posted speed limit. But what's important to understand is: I like to do dangerous things *very carefully*."



0 rpm, 0 mph: a very rare posture for Bob Sinclair.

Of course, "very carefully" to the average executive and "very carefully" to Sinclair don't exactly synchromesh at the same number of rpms. A few years ago, while riding back from Vermont with his son at speeds that would set a state trooper's teeth on edge, Sinclair was forced to dump his Harris when a car he was passing slammed on the brakes. The crash and the slide were "very interesting," he says, "but a little noisy." He escaped with a broken hand, but the pain was offset by this kudo: while in the hospital, a Connecticut trooper told him that he now held the unofficial state record for having slid the farthest after a motorcycle crash. Well, the survivor's record anyway.

Did he stop riding? Don't be silly. He laughs about the crash now, regretting only the two years and $4,000 it took to repair his mangled Harris.

And it isn't all speed, he insists, inviting my immediate skepticism. "If I'm out and riding really fast with the guys," he says, "it gets tiresome after a while. It's wonderful to slow down to a modest speed, 35 or 40 miles per hour for five or ten miles and get your brain refocused, and then blast along again. The juxtaposition of going quietly and smelling the air and watching the birds and then suddenly you're going outrageous speeds again is wonderful."

The "guys" in question, his fellow thrill-seekers, are the Sons of Danger, an elite band of Eastern motorsport enthusiasts with no firm rules, no meetings and, since its founding in 1973, no dues. SOD has been variously described by members as a "U.S. Navy demolitions team," "The Over The Hill Gang," and "lunatic journalists."

None is really accurate, because members include automotive editors David E. Davis Jr., Michael Brockman and Larry Griffin; journalist P.J. O'Rourke; racers Sam Hanks, Tom Sneva, Danny Sullivan and Don "Big Daddy" Garlits; advertising execs Chuck Riley (Young & Rubicam) and Joe Schulte (Wells, Rich, Greene); Olympian Bart Conner; and heads of industry Charles Hughes (Range Rover), Mike Dale (Jaguar) and Rocky Aoki (Benihana).

Most Sons of Danger are "at least slightly bent," says Sinclair. Is he, uh, bent as well? "I think so," he concedes, although Mrs. Anne Sinclair feels that "perverse" is more accurate. Then again, she keeps her helmet and two motorcycles in their family room.

The two of them, in fact, are to be seen occasionally on his 1936 Nimbus, "with the sidecar," he says, "which my wife and I ride around Fairfield County, putt-putt-putt-putt, just doing 25 or 30, having a marvelous time." It isn't just speed, he insists again, as if merely possessing an antique bike were sufficient evidence. "Take my 1915 Schickel. It won't go more than 35 or so."

"I don't like golf or hunting or any of those semi-sedentary activities," says Sinclair slowly, as he begins to explain his fascination with, even his addiction to speed. "I'm in the office, and I hold meetings, and attend meetings and handle a lot of paperwork. And have constant distractions. And it's refreshing, totally refreshing to get out in the air, and just totally focus. When I'm on the bike, I just

centrate on that one thing, that 0 yards of highway pavement directly in front of me. That's all; that's the only thing that I'm thinking about."

He sums up the antidote that riding provides with a phrase that could his credo: "You have to keep your napses cracking."

That utter directness of experience, he feels, has influenced him rongly as an executive, a tenure he s just concluded after more than 30 ars in the imported car business. My instinct has always been to be ery honest and direct with the dealers," he says. "If we're having a roblem, I want to call everyone in nd say, 'This is the problem.' That's ot the usual trend in the automotive ndustry. I always figured that there vould be 10% who would take advantage of me, but that the other 0% would appreciate the honesty."

Sinclair's lust for speed has had varying degrees of support from his employers over the years. Back when he was with Volvo, he began racing Volvo-powered vehicles in California to raise the Swedish carmaker's then-obscure profile. Appearing at sales meetings with a cut on his face from a crash, he found, did wonders for his credibility with dealers who were all too familiar with the "electric jacket and blue suede shoes" of his predecessor. Sales climbed, and Volvo was pleased.

But after moving East to Saab in 1979, the chairman of Saab-Scania in Sweden inquired if Sinclair wouldn't, please, consider giving up riding in the interests of remaining in one piece. Sinclair declined. " 'Would it make any difference if I ordered you?' " he recalls as their brief conversation. "No, and you might have to find a new president."

In between there had been numerous events involving the outrageous thrust and velocity of high-performance engines. First came winter rally driving, and three variously successful attempts at the Baja 1000. Then came five years of offshore powerboat racing, during which Sinclair set a one-mile speed record in the 500 cubic inch class, won three West Coast class racing championships and won a national championship in the Class Offshore II. And over the last decade there were the small-displacement minicars, the Lancias and Daihatsus and Autobianchis, that Sinclair would drive to their limits in any locale where he happened to find himself. "One of the luxuries of being the head of an automobile company is I get to import any car I want for testing and research," he says, almost managing to make it sound studious and dispassionate.

It's clear that he would rather be in any of those "on a twisting, turning trail" than in the luxury sports sedans so popular today. "Take the Lexus," he says. "It's a marvelous car, a beautiful car, but it puts me to sleep. There's no personality whatsoever." Similarly, the biggest Harley-Davidson, which a friend living abroad asked him to buy and break in. "It had everything," he says. "AM/FM, CB, you name it. But I could not ride that bike. It was like a Winnebago on two wheels."

Not so his Harris Magnum 3. Handbuilt in Virginia from English parts at a cost of approximately $14,000, the Harris has a Kawasaki 1100cc engine modified by Yoshimura Racing to deliver about 140 horsepower and a top speed of 170 mph. However brute, these specs seem pedestrian beside Sinclair's happy description of his bike: "a Formula One engine with a headlight and a horn."

And the way that Sinclair broke in the Harris was entirely typical of him, nurturing the consummation like an acolyte, or a lover. "I decided," he recalls, "that I wasn't going to take the bike over 5,000 rpm in any gear until I got to 750 miles. I'd had it shipped over to Munich for a trip I was taking.

"About the third or fourth day, we were going up through the Dolomites on a path called the Gross Glockner, twisty, twisty paths, back and forth, back and forth. Going up this mountain, you just felt like shouting, it was so exhilarating. And we got up to the top of the mountain where the inn is, stopped and had a Coke. And the north side of the mountain goes down a long, long valley, goes down about four or five miles, you can see forever, a steep mountain on each side, and you're running down this valley.

"And I looked down, and I had about 700 miles on the bike, and I said, 'I just have to open this sucker up.' And I let the other guys go on ahead of me, and I backed off, and they got maybe a quarter- or a half-mile down the road, and I started accelerating. And I backed off when I was showing 160 miles an hour, with the engine at 11,000 revs in fourth gear, and whaled by them, and it was just *extraordinary*. It was just this marvelous blast after 700 miles of taking it real easy. It was marvelous, full of adrenaline, full of emotion. It put tears in my eyes."

—TUCKER GOODRICH

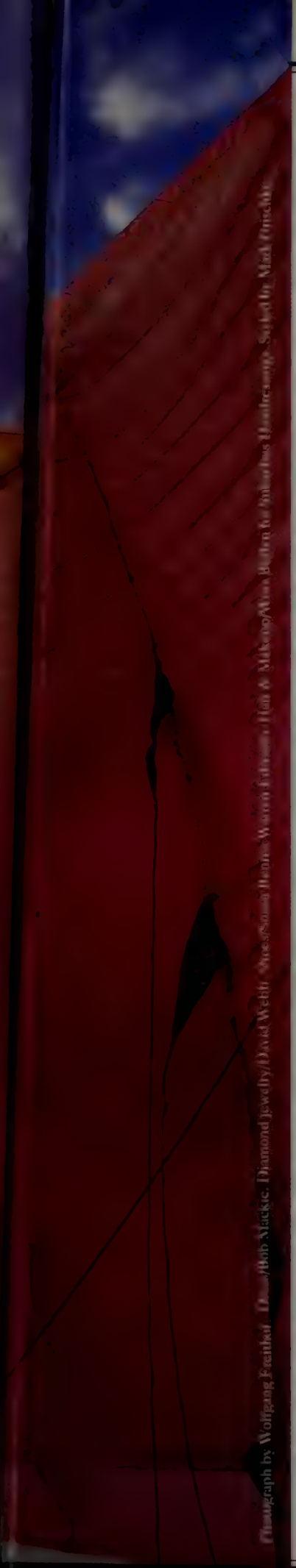
SINCLAIR'S FLEET

A collector who makes sure that his bikes actually taste the road, Bob Sinclair lists what are currently "his most significant vehicles":

1915 Schickel 220cc
1928 Husqvarna 250cc
1935 Norton International 350cc
1935 Excelsior Manxman 350cc
1936 Nimbus 750cc with Bender sidecar
1939 Nymans-Verkstäder moped
1949 Husqvarna 118cc
1963 Royal-Enfield 650cc
1974 Norton Commando 850cc
1974 Husqvarna 250cc
1982 BMW R100S 1000cc
1983 Harley-Davidson Sportster 883cc
1988 Harris Magnum 3 1100cc

Plus, he reports, "there are another half-dozen or more nondescript motorcycles sitting around here and there." One can only wonder.

Why would a down-to-earth securities analyst jump out of a plane 1,000 times? We went skydiving with her to find out.



Photograph by Wolfgang Freihal. Dress/Robb Mackie. Diamond jewelry/David Webb. Shoes/Stuart Weitzman. Hair & Make-up/Alan Barton for Bonaventure. Styled by Mark Oirsch.

OH, CHUTE!

By Neal Santelmann

Susan Perkins is a busy woman, but then, stepping out of a plane at 5,500 feet, she has a lot to do.

Almost immediately her parachute fills with air above her. Clad in the pink-and-blue jumpsuit of the Misty Blues All Woman Skydiving Team, Perkins descends to 3,800 feet, getting set up and in position over the landscape and the audience below.

Then the ride really begins. Cutting loose one side of her chute, Perkins promptly goes into a spin. With the wounded canopy flapping wildly overhead, she gyrates 25 times while plummeting close to 1,000 feet in less than half a minute. But the centrifugal effect takes its toll, and the ground is getting close. So Perkins quickly cuts the remainder of her useless chute, stabilizes and freefalls for an instant, and then pops a fresh pink-and-blue canopy at about 2,500 feet up.

And the crowd goes wild.

The "intentional cutaway," one of Perkins's specialties, is a real crowd pleaser—provided they've been warned. Once a fellow Misty Blue pulled the stunt on an unwary audience, and near-pandemonium ensued. "It's one thing to see something you perceive as being death-defying," explains Perkins, who spends weekdays as director of the Southeast/Florida Research Bureau of Raymond James Financial in St. Petersburg, Fla. "It's another to see someone you think is actually going to die."

Skydiving is one of those foolish pleasures that everybody thinks about, but few actually do. Perkins, a cool and confident 34-year-old, is in deep: during seven years of falling through the wild blue yonder she has taken the plunge close to 1,000 times, has been part of at least one successful all-women world record dive, and has spent the last two years performing with the Misty Blues—all while holding down various pressure-cooker brokerage jobs, including a five-year stint in institutional sales at the late E.F. Hutton. She also

owns a one-third interest in Skydive City, a drop zone in dive-crazy Zephyrhills, Fla., and a percentage of four airplanes.

Why skydiving? "Some people will say you have a death wish," says the securities analyst. "That's so far out of the realm of questions that should be asked here that it's not even worth dignifying with an answer."

A native of Colrain, Mass., Perkins got her MBA from New York University in 1981 and briefly pursued financial journalism ("It wasn't very lucrative") before heading for Wall Street. She's the eldest of three very successful sisters, including Karen Perkins, until recently an assistant professor of biochemistry at Johns Hopkins University School of Medicine, and Hollywood actress Elizabeth Perkins (*Big*, *The Doctor*).

She was drawn to skydiving, she says, "for academic reasons, just as someone might take a course in art history to learn something, rather than to become an art history buff." And that first jump? "I was certainly afraid, but I wasn't gripped with fear," Perkins recalls of the static-line hop from 3,000 feet. Had she been adequately trained? "No," she answers in a snap. "I think if I had had a 'high speed streamer' [in which the chute deploys but refuses to unfold], there's a good probability I would have died."

Skyfalutin: the Misty Blues in action.

She survived, of course, though she remembers feeling less than euphoric upon hitting the ground. But unlike 85% of first-timers, Perkins went on to jump again, enrolling in an Accelerated Freefall course and completing the seven levels of student training—everything from pulling a rip cord to body positioning to altitude awareness—in 12 jumps.

While going it solo is the first hurdle for any novice skydiver, most of the sport centers around "relative work"—that is, one's body in the air relative to others. You'll see jumpsuited skydivers at the drop zones, practicing pre-flight "dirt dives" of what will become those fancy human rings, stars and wedges up in the air. Perkins's part in a 1989 world-record dive was one of the ultimates: 79 women bailed out of three airplanes and formed a five-ring human circle above Montgomery, N.Y., during a drop from 17,000 feet. (She was also scheduled to take part in a 100-woman attempt in mid-August—too late for our press time.)

Progress in relative work requires social climbing on the ground as well as skill in the air. Like most newcomers, Perkins had to jockey for opportunities to dive with the biggies. Some would have her, some would not. "At first I wouldn't get on the hot skydives because I couldn't perform," she recalls. "Then I got better, but people would remember me and I'd have to say, 'Wait a minute, I'm not as bad as I was before.' "

It took some time: "About 500 jumps before I felt I could hold my own on any but competitive jumps." And it wasn't always pretty: once a fellow skydiver assumed she was going to make a mistake in the air and started yelling at her. "I told him if he ever talked to me that way again, I'd do something friendly like punch him in the face."

Physical agility is more key to skydiving than strength. During freefall, divers use only subtle maneuvers to maintain or change their body position, speed or slow their fall, and zip around the sky. Being petite, at 5 feet 4 inches, Perkins often must compensate for her size (due to differences in aerodynamic drag) to keep up with larger jumpers: like a shuttlecock—belly out, arms and legs way back. "I would consider skydivers more as sportsmen than athletes," she says. "There are not as many physical demands as one might think."

The psychological demands abound, though. It can get dangerous up there with all those bodies flying around, and one packs the gossamer chutes with care. Perkins has twice had to rely on her reserve parachute to save her skin. Scary? Sure, yet her philosophy on fear is simple: "Learn to live with it, and it goes away."

But people do get killed: 23 last year, out of 115,000 participants making 2.4 million jumps. (And yet, the United States Parachute Association points out, 1990 was the least fatal year ever.) "If you stay in this sport

long enough, people you know will get killed or become paralyzed," she says. Over the years, Perkins has witnessed two fatal accidents, one in which she saw two people hit the ground after they collided in midair. Did that slow her down? "It shakes you up a little bit, but you get right back up in the plane and do it." Did it remind her of the limits? "I think it reminds you to be sure you have adequate separation."

Perkins has found a rewarding niche on the performance circuit with the Misty Blues, who spend most weekends from May to November performing at air shows, promotionals and celebrations around the country. To watch them prepare is a study in contrasts: girlishly garrulous on land, deadly serious when they hit the skies. Perkins joined the team on a limited basis in 1988 and currently does up to 10 shows a year, earning herself an extra $125 a day.

The 15 members of the Misty Blues perform with chutes deployed rather than as freefallers—the better to see them. Among their dazzling stunts are flag and pyrotechnic jumps; a trapeze trick in which one parachutist dangles a cloth ladder, while another climbs down and swings from the bottom rung before flipping into freefall; and "canopy relative work," including one maneuver in which two jumpers wrangle their legs together, then stream earthward underneath their canopies before separating near the ground. "We scream while we're doing that one," says Perkins, who's rehearsing it. "It's fun."

Parachutes are like fireworks: put 'em up in the sky and everybody looks. *FYI* caught up with the Misty Blues at a small-scale Memorial Day performance in Sarasota, Fla. There, team leader Sandy Williams led a group of them down, trailing a huge flag to the delight of a few hundred patriotic middle Americans gazing from a parking lot. Alas, this time Old Glory ended up in a tree ("Well, it didn't touch the ground"), but well-timed waves were rewarded with cheers, and as each Misty Blue touched down the crowd roared. Perkins alone hit the gold "X" on the asphalt.

Then it was crowd-pleasing time: handshakes and kisses for the vets, autographs for the kids, photographs and questions, questions, questions. "But they were *girls*," bubbled one woman to a smiling Perkins. "I thought they were going to be guys!" (In fact, only 14% of skydivers are women.) Such post-dive P.R. is half the job, and Perkins's duties as a Misty Blue have included everything from kissing the Mayor of Huntington, W.Va., to posing with Elsie (the cow) at a Borden dairy in Albuquerque—pretty goofy stuff for a no-nonsense number cruncher used to 70-hour weeks.

But maybe, for someone who can keep her emotions as tightly in check as a packed chute, that's part of the appeal. She skydives, she says, "because it's fun. Some people have trouble with that: 'Fun? You mean F-U-N? It's got to give you something else.' No, it doesn't."

Her fast-track job will not stop her from making the time for 250 jumps this year, often as many as a dozen in a weekend and most from 13,500 feet. She plans to stick with the Misty Blues; "I still have a lot to learn." She's better now than she was two years ago, she says, exuding conspicuous confidence, "and I'll be better two years from now."

I Dive

I decided to find out for myself whether skydivers are suicidal, or, as Susan Perkins insists, just wanna have "F-U-N." And so, pausing to dash off a quick, unwitnessed will, I headed for Skydive City.

I did a tandem jump, the dive of choice for first-timers who want the total experience. Wearing a harness, I was hooked at the shoulders and hips to Santos Matos, a veteran of 26 years in the Army and some 7,000 dives, who did all the work during our descent from—gulp—13,500 feet.

Matos did his best to keep me calm during the flight up, assuring me that, yes, we were attached; no, my harness wouldn't fall off; and yes, the parachute would open. I was nervous, but I wasn't afraid. Indeed, I found it difficult to be fearful, surrounded as I was by 18 veteran skydivers carrying on more like giddy teenagers headed for the beach than sober adults preparing to die. (One did have to use his reserve chute on the trip down.)

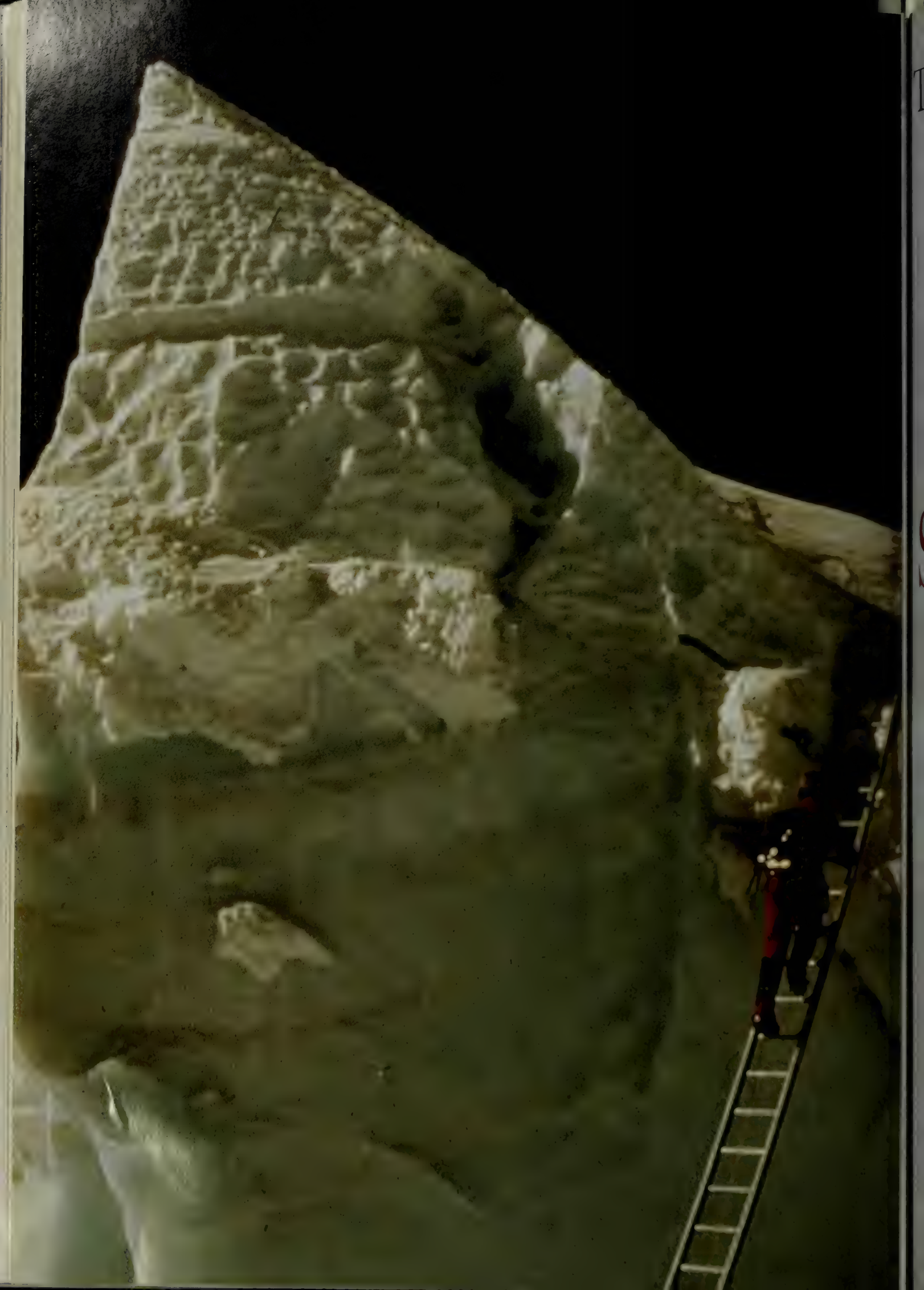
A moment's hesitation and—Boom!—we were out. I don't recall yelling "Banzai!", but I did scream like a kamikaze for the first few seconds. Of course, I couldn't hear myself, as the air rushing by at around 120 m.p.h. drowned out everything. I tried to take it all in: the ground, so far away it seemed inconsequential; the sky, blue and hazy; the clouds, white and wispy; and the cameraman (hey, no one was going to take my *word for it).*

After half a minute, Perkins appeared, slicing through the air like a dragonfly. We waved to each other a few times and then she was gone, as the oversized canopy brought our freefall to an abrupt halt 4,500 feet up. No, we didn't rise when the parachute opened—a common misconception—but we were gently jerked upright. As we slid slowly earthward, I spent my time surveying the sights, asking questions, and shouting "Wooooooo!"

We slipped through a cotton puff cloud at about 2,000 feet ("That's a freebie," said Matos), and, maybe six minutes after jumping, tumbled to a relatively soft landing.

So—was it fun? It was. Would I do it again? I already have. Am I still in one piece? No—I broke my wrist on my fifth jump. Would I still *do it again? Just as soon as I get this damn cast off.—N.S.*

For more info on drop zones and student programs, contact the U. S. Parachute Association: 703-836-3495.



The 6 7/8 Summits of FRANK WELLS

Arranged by
ALLISON MOIR

In 1982, FRANK WELLS came home from the office and announced to his wife, "I've just quit my job as president of Warner Brothers Studios, and I'm going to try to be the first person in history to climb the highest mountain on each of the seven continents."

He found another like-minded soul who had also thought of this damn fool idea, Dick Bass, the owner of the Snowbird ski resort in Utah.

Wells and Bass had absolutely no technical ability or climbing experience. To combat their expedition ignorance, they took world-class climbers with them and chose the safest routes to the summits.

Wells went 0-for-5 on the practice climbs. High altitude exhaustion, a mountaintop case of pneumonia and a stumble resulting in 16 stitches kept him behind, while Bass and the team pranced on to the summits.

Here, in Wells's own words, is their 25-mile climb into the sky.

Mt. Kilimanjaro, 1953

As a Rhodes scholar at Oxford University, I fell with a kindred spirit named Vince Jones. One day Vince barged into my digs. "Wells, at spring vacation we're going to buy a single-engine plane and fly from Oxford to Cape Town and back. I've got 300 hours of flight time under my belt," he said. "And you gotta learn to navigate—we can't afford a radio."

We only got to East Africa, where we crashed on takeoff, totally wiping out the plane. But we survived, thanks to Vince's quick-mindedness in cutting the switches and finding a field to crash in.

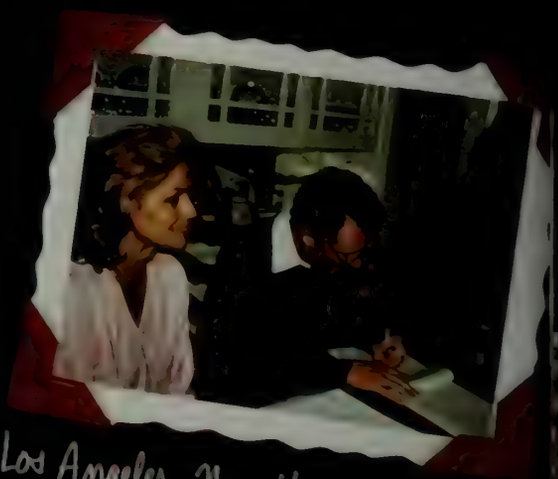
This is the two of us standing beside the plane on the slopes of Mt. Kilimanjaro. We had just climbed as a sort of spontaneous, "let's try it" kick. It's over 19,000 feet—took us six days. I was actively sick the entire last day and absolutely miserable.

But coming off the mountain, I had the germ of the idea: if I can't be the first guy to the top of Everest, maybe someday I can be the first person to climb the tallest mountain on each of the seven continents.

Mt. Everest, practice climb, Spring 1982

Our professional guide, Marty Hoey, had ordered me back on two practice climbs already. On Everest, I again stayed behind, this time with a case of pneumonia.

The group who went ahead (but never reached the summit) suffered a terrible tragedy. Marty's belt harness, attached to a fixed rope, popped open, and she fell 6,000 feet to her death.



Los Angeles, New Year's Day, 1983

Of course I needed a will. Not a will to succeed; a will to succeed me, should the worst happen. Here I am signing it on January 1, 1983. I got up from that table and left immediately for the first of the Seven Summits, Aconcagua in Argentina, and made it to the top relatively uneventfully.

e biggest challenge of all; Everest, from the
ıtherly side of Nepal.
ommercial flight from Seattle to Tokyo to Bang-
to Katmandu, to a two-engine flight to Lukla, at
000 feet, a landing strip carved right out of a
ountain ridge. I didn't navigate, and we landed
ght side up.
nine-day hike to our base camp at Khumba Gla-
er, where our 20,000 pounds of equipment flown in
m the U.S. had to be "yak-packed" in. At base
mp, we joined the 30 Sherpas who would be with us
r the entire two-and-a-half month climb.
ıe Khambu Ice Fall is a huge mass of ice blocks
ıd crevasses, which can give way unexpectedly at
ıy time. It's the place of more deaths—about 20—
ıan any other place on Everest. The route required
ıne days to put in, fixing ropes and over 40 alumi-

Mt. Everest, March thru May, 1983

num ladders which became our bridges.
How did I cross that crevasse two weeks later? I crawled on all fours over that mother, that's how.
On May 3rd, the first of four designated climbing teams—I was on the fourth and last of them—set out for the summit.
In three days we placed eight men on top of Everest. Dick Bass and his team were next, and they got just a thousand feet from the summit—so close—when weather forced them to turn back.
It was my turn, but the team begged me not to try it, because of my lack of experience, my weak condition at high altitude and a deserved reputation for losing my footing at the wrong time. Understandably, none of the team would go with me.
So I took two Sherpas, and with oxygen I reached the famous South Call, 26,200 feet above sea level. I felt fantastic, turned up the oxygen flow rate, and walked around the campsite like it was Disney World. Only 3,000 vertical feet away—just one day—lay the summit of Everest. I'd be the oldest person in history to make it, and making the Seven Summits would be practically assured.
At 4 p.m., I climbed into my tent as a slight afternoon wind started to blow. It became stronger and stronger, until it seemed to be blowing over a hundred miles an hour.
I bribed my two Sherpas with a year's wage each day to stay up there in hopes the storm would stop. After four days, our supplies and oxygen were running down, and they insisted we go back. I had to admit I didn't know what permanent effect that much time at high altitude would have on me. And from what I had been paying the Sherpas to stay with me, they were sure I was in the advanced stages of oxygen deprivation!
So I decided, for the moment, I had to turn my back on the Everest summit, my dream for over 30 years. That "slight afternoon wind" ended up lasting seven days. After one more attempt by Dick Bass—who was turned back by the same storm—the expedition on Everest was over.

We came home in early June, but did not even consider scrapping the whole Seven Summits adventure, even though complete success was now clearly beyond our grasp.

We landed by ski plane on the Kahiltna Glacier. It took four round-trips to get all the climbers and gear in, including some new cohorts—Susan Butcher, four-time winner of the Alaskan Iditarod, and her team of eight huskies. Susan's team went halfway up the mountain, and she went on with us to the summit.

We endured more climbing, much of it through storms, until we stood on top, looking out over the Alaskan range at probably the most scenic view of all the seven climbs.

Mt. McKinley, July 1983

Mt. Kilimanjaro, August 1983

After North America, it was back to Africa for me, almost 30 years later. The climb was through five different climatic zones. This time up a harder route, until at last, as I had 30 years earlier, I stood at the top. Once again, the summit of Kilimanjaro, this time with Dick and his son Danny.

This climb was an easy one. A chair lift to 11,000 feet (believe me, this is the way to climb a mountain). After two days of climatizing at 13,000 feet, we struck out for the summit.

Mt. Elbrus, USSR, November 1983

Mt. Elbrus, USSR.

Dick and I pranced by the spot where I had keeled over from sheer exhaustion the year before, reciting "Gunga Din" in unison. At last, we stood on top of the highest mountain in Europe, gazing across the Caucasus with Comrade Lenin. He's a permanent fixture there, looking over the Soviet Union. Lenin stayed. We left.

Vinson Massif, Antarctica, December 1983

In some ways, this was the toughest of them all. Not the climb, but getting there.

No private plane had even gotten near the mountain, located only 600 miles from the South Pole. And only two parties had ever climbed the mountain.

I worked the phones for a solid week (I thought I left all this behind!) to find the right plane for an eight-man expedition: a one-of-a-kind turbo-prop DC-3 with a third engine added to the nose. It was originally built in the middle of World War II, and it took me six weeks just to get special casualty insurance directly from Lloyds of London.

For $26,000 we arranged for a fuel drop in the middle of nowhere, courtesy of the Chilean Air Force. We then landed on the 8,000-foot ice pack, praying our landing skis would not be snapped off by the ice and two-foot-high snowdrifts formed by the intense winds. We were as remote as any place on Earth, 2,000 miles from anything that could possibly be called civilization.

Vinson Massif

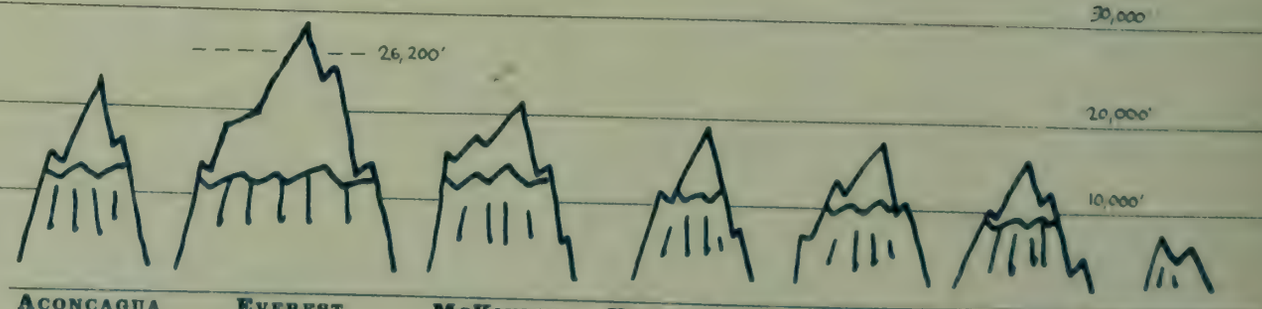
We expected an easy three- to four-day climb, but on our first attempt, our climbing leader ordered me to turn back when my nose was frozen by the minus 25-degree weather and 50 m.p.h. wind.
I insisted Dick go on, so one of us could make it, but he wouldn't. He said that after all the work I had done to get us there, this one was to be done together or not at all.
A second attempt was made on Day 10; again, driven back by high winds.
Finally, with supplies almost gone, and my becoming more deeply discouraged, a third attempt.
I was visibly weakened, but another member, "the man who skied down Everest," Yuichiro Miura, said he would take the extra weight. He added it to his own heavy pack, on top of his skis, and we climbed it.
Just one step from the summit I slipped and rolled 300 feet down the mountain. But finally, I was back on top. Bass had made it just before me. Of all the summits, this was the best moment for me.

A chairlift ride, and then, a two-hour stroll to the summit, where Luanne had already walked in and waited for us with a bottle of Champagne. Dick Bass and I toasted each other. I wondered what the heck I was going to do with the rest of my life.

Mt. Kosciusko, Australia, December 1983

Where are they now?

Frank Wells has returned to the low altitudes and is president and chief operating officer of the Walt Disney Company.
Dick Bass reached the summit of Everest in April 1985. At age 53, he became the oldest person to reach the top of Everest and the first person in history to climb all Seven Summits. Bass had planned to climb Mt. Everest again, without oxygen, but canceled the expedition due to Desert Storm.



THE YACHTING LIFESTYLE

A Special Section Written by

Yachting MAGAZINE

Two years before the mast was how young American sailors once received their training at sea. Today, two weeks behind the wheel–or reclining on the foredeck–is how captains of industry celebrate their hard-earned days of rest. Whether it means broadreaching across the South Pacific or cruising secluded islands beyond a suburban horizon, the yachting lifestyle is luring more top execs from desk to dock. There, the modern yacht awaits, equipped from gym to jacuzzi with all of the creature comforts. Follow the courses three successful entrepreneurs have charted since they set out to build the yachts of their dreams.

CARL DAMÉ

Cruising Magnifico

* * *

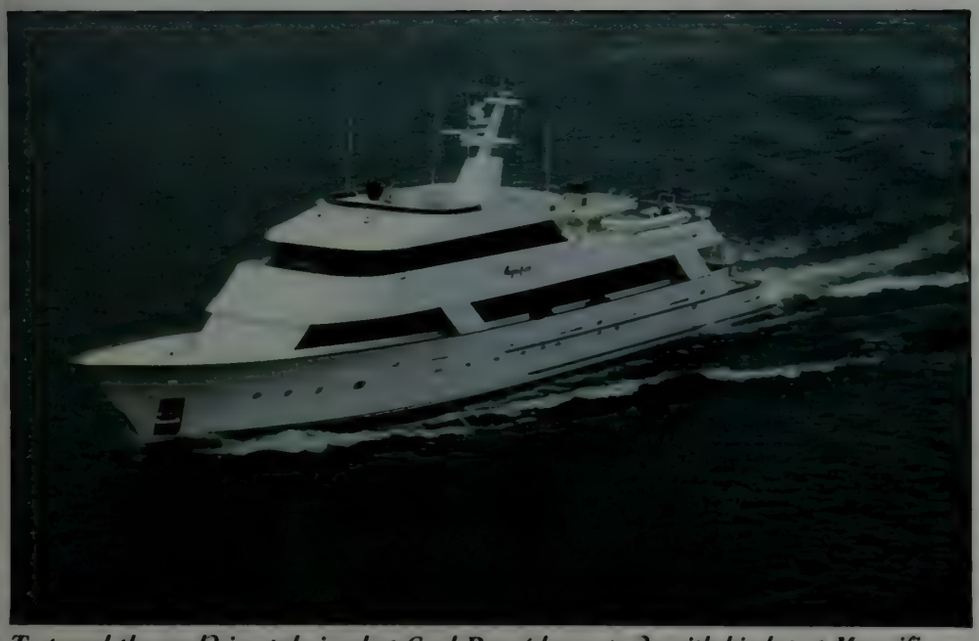
In Desolation Sound, in the Pacific Northwest, fir and cedar grow right down to the water's edge, and in inlets like Princess Louisa, water tumbles over cliffs 400 feet high. Whales, on their way from feeding grounds farther north, sound suddenly, moving up through the deep, dark waters and breaking the glass-smooth surface into ripples. Last August, something else sent waves through the still waters: the 140-foot-long hull of Carl Damé's *Magnifico.*

Aboard *Magnifico,* off the remote islands in northern Vancouver, Carl and Dorothy Damé and a few friends gather around the bar in the Mediterranean-style main saloon before dinner. A rose-colored carpet stretches to the variegated marble floor in the main entry with its marble columns. "This is a very beautiful boat," says Damé, whose parents emigrated from Italy in the early part of the century and whose Damé Construction Company has become a successful builder and developer in the San Francisco area.

To create the 170-ton *Magnifico,* Damé found Dave Christensen, former head of a real estate development company. His boatyard in Vancouver, Wash. builds large oceangoing yachts in fiberglass. Working with Damé, who designed much of the interior and specified all the systems, Christensen's yard put in 100,000 man-hours on the boat. The result is, according to Damé, "Everything I always wanted in a yacht."

With a 10,000-gallon fuel tank, six freezers, two 1,800-gallon-per-day watermakers and full satellite communications systems, *Magnifico* can cruise for 60 days without touching shore or go 5,000 miles at 18 to 21 knots. An exercise room is incorporated in the sky lounge, and fighting chairs, bait tanks and small outboard tenders grace the cockpit and upper decks. Below, the owner's and four guest staterooms all have their own baths with separate quarters forward for the eight crew.

"This is a wonderful way to vacation. You have everything with you and you never need to pack and unpack,"



To travel the world in style is what Carl Damé hopes to do with his latest Magnifico, a 140-foot beauty with an ash and marble interior and cruising range of 5,000 miles.

THE
YACHTING
LIFESTYLE

says Dorothy Damé, who did all of the cooking aboard one of the couple's early yachts, a Hatteras 58.

If the Damés had another month, *Magnifico* might have kept going north to Alaska. The couple has headed up there every year for the past 14 aboard one of the five yachts they have owned, almost always with some close friends aboard.

"I wanted a boat to cross oceans," says Carl Damé. "She can go anywhere." Next summer, instead of casting a line into the depths of Desolation Sound, the couple will be tying up on the quays of St. Tropez. "This is the boat I have always wanted to build,"sighs Damé. "She is a wonderful, wonderful yacht."

ROBERT ENTENMANN
Gone Fishin'

* * *

Robert Entenmann has been doing some baking, not at the New York bakery he, his brothers and mother built into a multimillion-dollar business, but aboard his 91' yacht *Martha E* as she sails around the world. "I made some bread aboard and some sweet rolls that turned out pretty well," says Entenmann, recently on "shore leave" at his home in Montauk, N.Y.

Entenmann grew up minding the ovens in Bay Shore, Long Island, and moved up to become CEO of the company before he and his brothers sold it in the late '70s. Since then, Entenmann, 63, has been acting as a consultant to the bakery, but spends half his time sailing around the world. The only bread he bakes now is a side dish to accompany the tuna or wahoo he catches, cleans and grills on a barbecue mounted on the stern of the boat.

Few days go by at sea when the lines Entenmann drags off the stern of *Martha E* don't get a nibble or a tug. Since *Martha E* left Florida nearly two years ago, bound for the Panama Canal, the Galapagos, Fiji, Bali and points westward, Entenmann has, by his own estimate, caught nearly every fish that swims in the sea. "We only keep aboard what we can eat," says Entenmann, who is usually the one in the fighting chair reeling in the catch as the sailboat rolls through the waves.

The rest of the time on the blue-water passages is spent trimming the sails, navigating under a sky full of stars and watching for the next landfall—be it a deserted coral atoll in the Pacific or the high cliffs of Gibraltar.

Aboard the *Martha E*, Entenmann has found the answer to, if not all, at least many of his dreams. The circumnavigation was originally planned as an extended fishing trip, with a side duty of collecting baking recipes and techniques from different cultures around the world. But Entenmann also wanted to sail. In an unusual match, Windship Trident Yachts of Tampa, Fla. built a sleek, silent sailing sloop with a fighting chair in the cockpit and outriggers for the lines.

Entenmann only discovered his love for sailing five years ago when he chartered a

STAYING IN TOUCH AT SEA

The communications revolution is raging full force at sea. A yachtsman sailing the South Pacific has access to almost all the communications services available to a Manhattan office, including electronic mail, data transfer and direct-dial phone service, 24 hours a day. Although some of these functions can be performed using a single sideband radio, and no yacht leaves port without a standard VHF radio, for most large yachts the system of choice is satellite communication. Equipped with a terminal, antenna and a transmitter/receiver, a yacht can communicate by satellite, via a high-powered land-based antenna, with just about any place in the world. Since 1976, when the first system went on line, more than 63 nations have joined Inmarsat, the international satellite communications network. As new satellites are launched, digital systems will replace older analog ones, providing faster service and improved quality.

MERRILL-STEVENS DRY DOCK

LOUISE WAREHAM / YACHTING

James Merrill still runs the family business, Florida's oldest and largest full-service yacht yard.

When it's time for repairs or maintenance, yachts from Europe to the Orient return to one yard in Miami. Florida's first corporation, Merrill-Stevens Dry Dock was founded in 1885. Under the direction of James Merrill, the company now includes Yacht Sales and Marine Products divisions and has become one of the largest full-service yards on the East Coast. Craftsmen who have been at Merrill-Stevens for more than 40 years assure top quality on every job—be it refitting the engines aboard Jacques Cousteau's *Calypso* or stretching a 135-foot luxury yacht by 50 feet. From machining parts to hand-brushing varnish, all jobs are done on the premises and, thanks to the in-house products division, there's no waiting for parts. That's why the Merrill-Stevens motto, "We do it right. On time," keeps bringing boats back.

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boat in the Caribbean. "I found I liked the feel of a sailboat—it's much more comfortable in open water. And with sailing, I found there was something to do besides just going from here to there."

The *Martha E* is headed for the Azores and is almost home now. Working and sailing alternate months ("the boat doesn't sail without me aboard," he says, emphatically), Robert Entenmann has covered the world's major fishing grounds. He has snorkeled in the lagoons of Bora Bora and sailed through

DEBRA LEX

Entenmann's Martha E has proven to be as good a boat for catching giant marlin as she is a sailing yacht.

the straits of Gibraltar.

"When I get home I'll head up to the canyons off Montauk. The powerboats will go out overnight, but I can stay out there for a week if I want," he chuckles. Or two weeks, or three. For this sailor, there's no hurry.

BLONDER MARINE AND CHARTER

Gary Blonder, captain of an elite fleet of charter yachts.

Whether you are looking for a yacht that would make James Bond envious or an elegant cruiser that caters to royalty, chances are it's owned, managed or chartered by Blonder Marine. Auto parts magnate Gary S. Blonder started the company 20 years ago and built himself a series of yachts, including the 153' jet-propelled *Parts VI*. Since then, he has expanded to offer his company's charter and management expertise to an elite fleet. With offices in Hawaii, Florida and New England, BMC charters its yachts around the world. Blonder Marine and Charter also offers supervision at every stage of yacht ownership, from the initial construction to educating the crew to meet four-star standards. "As an owner of a yacht, I know what clients expect," says Blonder, "and that's impeccable service."

ROBERT WEISS
The Business of Pleasure

* * *

Robert Weiss is finding it harder and harder to separate business and pleasure. Business is Metroplex Communications in Cleveland, Ohio, the 13-station radio group that he and partner Norman Wain founded in 1964. Pleasure for Weiss is the time he and his wife Lee can find to spend aboard their 120' Broward motor yacht, cruising deserted cays in the Abacos in the winter or nosing into Great Salt Pond on Block Island, R. I. in the summer.

Destiny, the fifteenth yacht Weiss has owned in the past 30 years, has become business as well. When he is not using the boat for himself, friends or clients,

CARLE & CARLE

Wallace and Jeffrey Beneville continue the family tradition.

There are few yachts that Jeffrey Beneville can't handle—either as a yachtsman or a marine insurance broker. When Dennis Conner needed a crew for the 1992 America's Cup, he called Beneville, and when a 136' sloop built for the 1934 America's Cup needed coverage, the phone rang at Carle & Carle. As manager of the Yacht Insurance Division of Carle & Carle, Jeff Beneville furthers a tradition begun by his great-grandfather, Leslie Ward Carle, in 1914. Jeff's father, Wallace Beneville, an executive in the insurance industry for 35 years, remains president and CEO of the firm. Jeff and his brother Tom also own a full-service boatyard on the Hudson River. The insurance division structures coverage for everything from small sportfishing boats to $10 million yachts, corporate charter vessels and New York's North Cove Yacht Harbor. Carle & Carle's success is no accident: Yachtsmen trust Beneville with their coverage because he's a yachtsman himself.

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Equipped with all the toys—from satellite communications to jet skis—Destiny has become a queen in the charter fleet, a pleasure palace that can cruise at 15 knots.

Weiss charters her out for $45,000 a week. With 22 weeks booked last year, *Destiny* has become one of the most successful yachts in the charter trade.

"My wife Lee and I try to squeeze in a little time aboard between the charters now," says Weiss, who has owned and piloted boats for much of his life. "There is nothing better than stepping aboard after some long weeks at work. It's like being able to move a vacation home from Palm Beach to Havana." At the moment, Weiss' favorite route is to start from Boston and meander up the bays and inlets of the New England coast to Maine.

Even alone at anchor in a rock-rimmed inlet, the work doesn't stop. "Part of the fun I have with *Destiny* is running her as a business," says Weiss. "I spend most of my time aboard going over the systems with the captain, discussing new ways of marketing, what new gadgets to buy, how to make her a little more luxurious."

The jet skis, small sailing boats, snorkel equipment and other pleasure paraphernalia are used primarily by guests. The satellite phone system, fax and on-board computer (all set up in an on-board office) are Weiss' toys of choice—and often the charter guests' as well.

Weiss didn't get into the chartering business by accident. A yachtsman from early on, Weiss moved into larger yachts when he bought a 65-foot Pacemaker poweryacht in 1970, then a 68-foot Chris Craft and then on up, every few years.

"I decided that smaller boats were too much like camping. You can spend an afternoon on one and that's great, but I wanted something that I could live aboard and entertain on," he says. With the move up in size, Weiss found that he needed a full-time crew to maintain the yacht and help him handle her. As crew and maintenance expenses began to run

BOB SAXON & ASSOCIATES

Bob Saxon has put together a team of yacht management experts.

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THE
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COVERAGE AT SEA

No yacht should ever leave the harbor without life jackets for everyone aboard and a solid insurance policy. Finding life jackets is the easy part. Getting a policy tailored to your yacht and the way you use it demands the services of an expert. When looking for a broker or an insurance company, keep the following in mind:

- Make sure your yacht is covered for all possible uses—including chartering and long-distance voyaging.
- Make sure your carrier will cover you for the areas you plan to sail in.
- Make sure engines and machinery are covered.

If you keep your yacht in the north, ask your company about its policy on damage caused by ice or freezing. Look for an all-risk policy that makes payment on the yacht's agreed-on value (not the actual cash value, which can easily depreciate). Finally, choose a company with an established reputation in the marine field, a good surveyor network and a high company rating. And don't ever forget the life jackets.

into six-digit figures, it made sense to offset the costs by chartering the boat when she was not in use.

Weiss is in the building stage again. At Broward's Florida yard, plans have been drawn for a new 135-foot *Destiny* that Weiss promises will have the "latest of everything." It will take time to build, but in the meantime, Weiss has plenty of things yet to do with the present *Destiny*. This fall there's the golf trip he has planned as a charter excursion. For winter there's the idea of moving *Destiny* to the Pacific to be in San Diego for the America's Cup next spring, then Alaska for the summer.

Weiss' mind keeps working. "I don't even think of this as boating any more. It's a just a different way to vacation."

Written by Lisa Gosselin, Senior Editor, *Yachting* Magazine.
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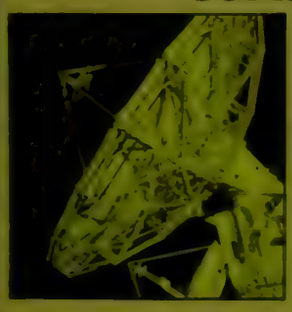

Using COMSAT technology, yachtsmen can phone, fax or telex anywhere in the world.

Today yachts at sea can make phone calls, receive faxes, transfer computer data and even get the latest sports scores and stock market reports, thanks to COMSAT. The largest user of the Inmarsat satellite network, COMSAT links a ship's satellite communications terminal, satellites and the COMSAT Earth Station. Recently, COMSAT expanded its coverage to become the only Inmarsat provider to offer full service in oceans around the world. Another innovation that will appear in late 1991 is the introduction of COMSAT C-Link. Ideal for smaller yachts, C-Link offers two-way message communications using a small, affordable Inmarsat C satellite terminal. No matter what ocean your yacht may sail, thanks to COMSAT you will never be out of touch.

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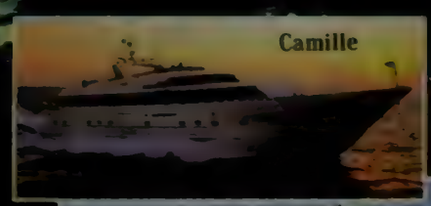

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CAPTAINS OF THE CLOUDS

How did those titans of industry manage, in the days before Learjets and G-IVs?

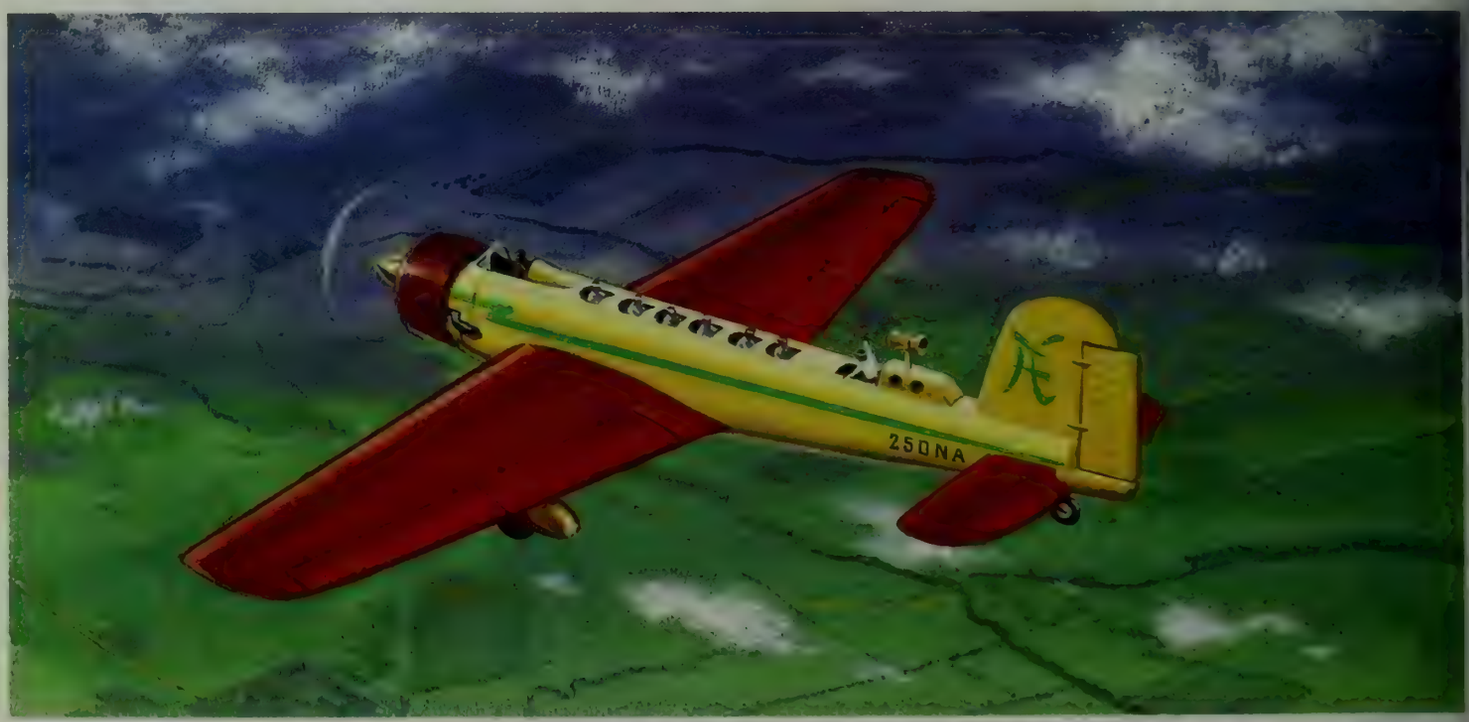
Bruce McCall *recreates the dawn of corporate travel.*

1911: Cromby Bros. & Brummel B-1 Eudoxia

History's first executive aircraft was purpose-built in 1911 to ferry the Chairman and the Board of Governors of the London & Irriwaddy Railroad Company Ltd., who eschewed traveling by motorcar or other rail systems, to Ascot Race Day from the City. With its fifteen-foot ceiling, the Eudoxia set and to this day retains the all-time record for cabin spaciousness aloft; and from crystal chandelier to damask drapes to shaded front verandah, its sheer plush must have equaled anything ever sent airborne. But *sic transit pomp*: conked by an errant Dom Pérignon bottle flung from the cabin as the Eudoxia's happy complement voyaged Ascotward through the empyrean, the woozy pilot struggled to keep control and lost. The Leviathan of the air fetched up moments later with a sickening crunch amid Lady Lambeth's annual garden party on the Great Lawn at Plunderwell. That the flora cushioned the impact and left the Chairman and Board of Governors unscathed did not go unremarked—or unrewarded. On the grounds of what is today Plunderwell Botanical Park can be espied a certain hothouse, of Edwardian mien, with fifteen-foot ceilings, perpetually endowed.

1928: Strumpf DZ-X Trilevel

It was the Prussian Imperial Bank that commissioned Strumpf Fluggesellschaft GmbH to construct the world's first three-story aircraft. Graceless to behold, granted, but Strumpf's triple-engined triple-decker Director's penthouse atop, senior officers' mezzanine below and clerks' quarters below that—superbly complemented a corporate style so firmly hierarchical that no one in the Bank's Berlin headquarters building was permitted to sit until a gong had announced the Director's arrival at his desk each morning. The pilot manual was exacting: "Clouds must appear on the port side only," stated Rule 452-A. But from all reports the Strumpf DZ-X was pleasant to fly and to fly in—particularly for the Director, who ascended to his penthouse via the first elevator ever installed in a passenger airplane, and who could summon fresh cigars via pneumatic tube from a humidor in the cargo hold. The Imperial Bank's 1930 failure, alas, prematurely ended the career of the DZ-X. It was returned to Strumpf, disassembled, and converted into three single-engined aircraft.



1934: Tanaka K3-C

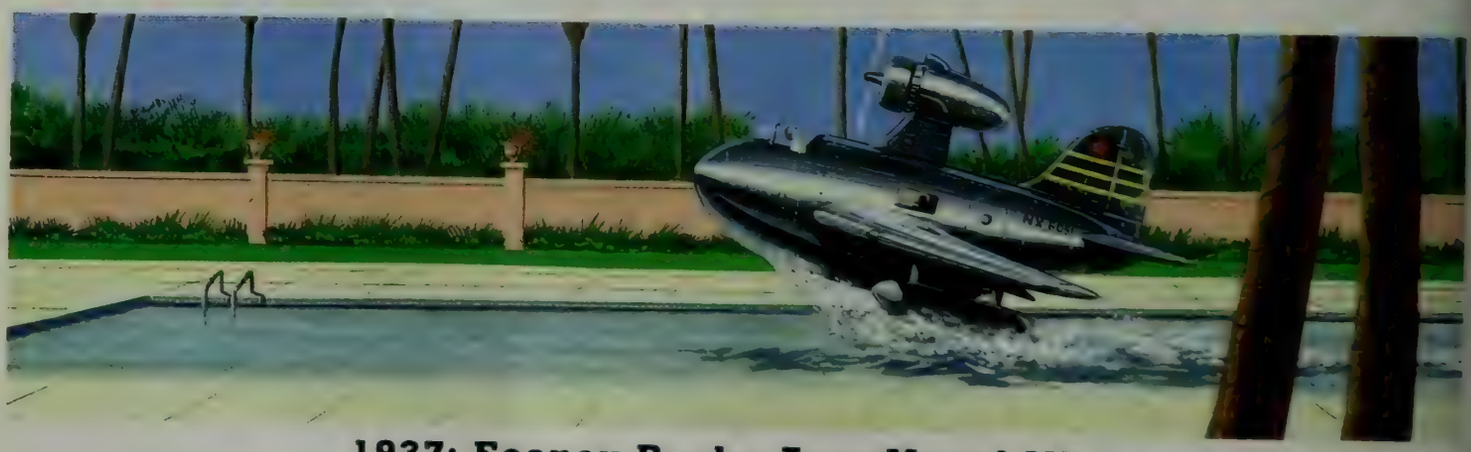
Tokyo's Happy Snake Candy Company converted a former K3 military observation plane into eastern Asia's first executive transport aircraft—of sorts. Its only passengers were Happy Snake sales personnel who had failed to meet monthly quotas; and far from lounging in airborne comfort, Tanaka riders were left exposed to the elements as they faced rearward and absorbed the morale-building speeches of the *Naka-Oh* ("Jolly Encourager"), while the pilot provided reinforcement with daring aerobatics at key phrases. "The lack of seatbelts," one passenger later recalled, "gave us harmony with the fine goals of Happy Snake in a true way." Happy Snake's switch from candymaking to shipbuilding later in the 1930s would end the career of the K3-C, but, as nautical buffs will recall, would launch that of the V-Class submersible skiff.

1931: Blackstone B3 Crusader

The Nardo family of Cicero, Illinois, virtually ruled metropolitan Chicago's oral delivery industry from the mid-1920s 1933. By 1931, even fast cars and fast oats weren't fast enough; it was indeed a stroke of luck," as paterfamilias Vespuc-io Nardo explained to a Senate commit-ee shortly afterward, that an unmanned Blackstone B3 Crusader bomber, with its registration numbers painted over and all serial numbers filed off, had landed in his nephew Rocco's backyard one day. Converted to America's first, largest and only seven-ton, twin-engined floral delivery aircraft, the ex-Crusader, in its distinctive black livery, was to prove an invaluable tool in enforcing the Nardos' trade dominance. Mystery still surrounds its tragic January 1933 demise and that of the entire Nardo clan while on a routine flower drop over a funeral in suburban Calumet. Could a Blackstone in flight really be mistaken for a "very large duck"? And if the 24 mourners found carrying Thompson submachine guns *really* meant to go hunting after the ceremonies, why, to a man, were they shod in wing tips and spats?

1936: Lomp N.V. "Flying Truce"

Dutch business aviation has produced no more singular aircraft than the "Flying Truce," which rolled out of the Lomp works and straight into the annals of contumely. The fault lay not in the Lomp but in the bitter internecine feuding that had riven Holland's prominent van der Twink family and the affairs of its vast flannel empire for generations—and which now extended to the design and configuration of the one executive aircraft the board's bylaws allowed. Accommodated in exactly identical fuselages separated by a pilot's nacelle, the family's two warring factions were no more airborne on the Flying Truce's maiden flight than each began angrily countermanding the other's orders to the pilot. The intercom screeched and crackled. The Flying Truce weaved and zigged and zagged in response, from Zandvoort to the Zuider Zee and back again. Subsequently, van der Twink heirs who saw the pilot's bailout somewhere over Leeuwarden as dereliction of duty were stalemated by the equal number of heirs who proposed him for the Medal of Orange, with Gouda clusters.



1937: Feeney-Beebe AquaMogul Mk I

The world's smallest flying boat was custom-built to fly flamboyant Hollywood producer D.D. Damascus Jr. in and out of the world's largest swimming pool, completed the previous year at his Brentwood estate, The Grosses. A pure commuter aircraft—it could handle a passenger load of D.D. Damascus Jr., period—the AquaMogul took a mere 12 minutes to ferry its occupant from home to studio, where it landed first in a tank built to duplicate the Caribbean for Damascus's 1937 production *Make Mine Maracaibo*, then in another tank built to duplicate the Mediterranean in Damascus's 1938 production *Make Mine Morocco*, then yet another tank built to duplicate the Indian Ocean in Damascus's 1939 production *Make Mine Mandalay*. Then came World War II and the end of the frothy *Make Mine* series, followed in short order by the useful end of water tanks, of D.D. Damascus Jr., and of the AquaMogul Mk I. Quiz for the sharp-eyed cineaste: describe the "rocket plane" that dives into the giant prehistoric hamster's ear in the 1952 Togyo Films release, ***Moon Men of Mars***. ■

BRUCE MCCALL *is the author of* Zany Afternoons, *published by Alfred A. Knopf.*

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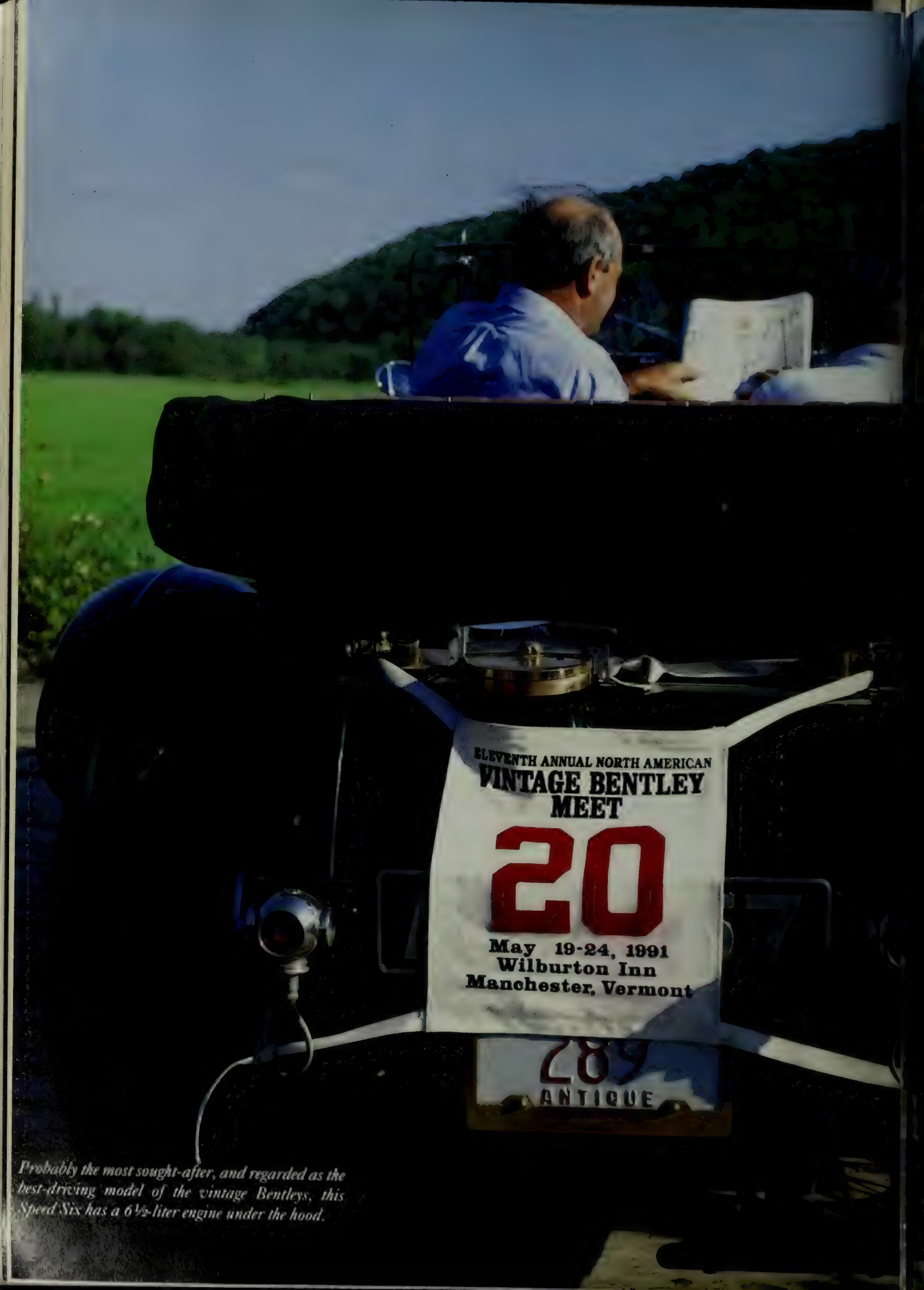

Probably the most sought-after, and regarded as the best-driving model of the vintage Bentleys, this Speed Six has a 6½-liter engine under the hood.

Photographs by Bill Cheney

HELL-BENT *for* BENTLEYS

What is the highest tribute one can pay a noble, inspired, half-million-dollar classic automobile? Simple, old boy, drive the bloody thing.

BY DAVID E. DAVIS JR.

The annual gathering of the Bentley Drivers Club in New England is a celebration of obsession, and there's much to be said for that. One might speculate whether a society is interesting or boring depending on the percentage of truly obsessive individuals it contains. In the Bentley Drivers Club, the obsession quotient is at near-saturation levels, and the result is a small group of people who have

enough fun for all the rest of us put together.

Like all car clubs, the Bentley Drivers meet to celebrate the virtues and idiosyncrasies of their cars, to exchange information and to participate in the activities for which their cars were designed. But while many car club members and officers approach the activity with all the dash and verve of dyspeptic rent-a-cops, fun with cars is the alpha and omega of the vintage Bentley clan.

In the end, what truly sets the Bentley Drivers Club off is this: they *drive* their cars. With enthusiasm.

This might not seem especially remarkable until you consider this fact: a W.O. Bentley can range in value from around $150,000 to as much as $1 million. People who own other kinds of cars of equal value tend to take awfully good care of them. Indeed, it can be fairly said that they pamper them; not allowing them to get dirty, never driving them further than is absolutely necessary, and certainly avoiding gravel roads and long drives in foul weather.

Vintage Bentley drivers don't see it that way. These are cars, they reason. Cars that were, after all, designed and built to be driven hard and fast. So . . . why not drive them hard and fast? This year's annual gathering, in Manchester, Vt., saw four days of cheerful thrashing of priceless old crocks through the sunlit hills and postcard villages of Vermont and upstate New York, and included hill climbs and road rallies, often on long stretches of gravel road.

Cars did break down. But it was not occasion for mourning. Indeed, a blown engine or a broken magneto which may have caused some pain to the car's owner was the occasion of a great outpouring of community spirit among the other Bentley drivers. Aha! A mechanical problem! We can help!

Cars slowed to a stop, drivers and passengers leaped out, tools appeared, and old stories of *I had one break just like this six years ago* were told and retold.

To the onlooker, it seemed odd indeed that some awful mechanical catastrophe could befall a priceless automotive artifact and be the occasion of so much apparent *joy*.

This seems to come with the car. As owners of dogs begin to resemble their favorite breed, Bentley owners and drivers embody the spirit of the car and its short but lively history.

W.O. Bentley seems to have been an extremely decent Englishman without the foggiest notion of how to run a business. But he did have one great idea—a vision of a rather expensive car with performance, ride and roadholding superior to anything in Britain at the time. To this end, he created a wonderful four-cylinder, three-liter engine, using the same multi-valve technology that has captured the hearts and minds of today's automobile manufacturers. These engine-powered cars were large and heavy and, in the case of the sedans, quite obsolete in appearance.

The company might not have lasted even as long as it did (1919-1931) had it relied on these sedans alone. Fortunately, there were the sports models, the classic being an open four-seater with a fabric body from a British firm called Vanden Plas. This very flexible

Life in the Bentley lane: Paul and Barbara Sydlowski relax on the running board of their 1923 3-liter Speed Model.

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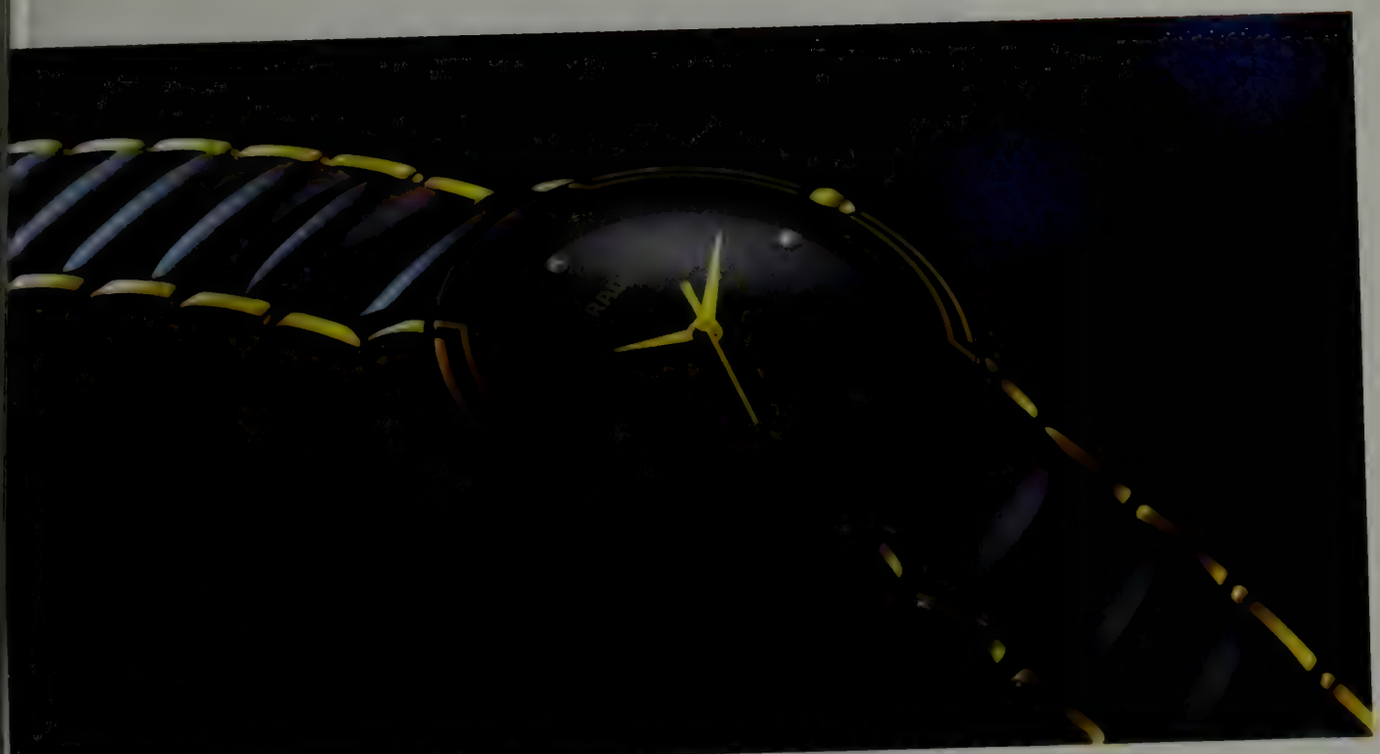

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Whitman Ball at the wheel of his 1924 3-liter Tourer.

frame, attached at each of the corners to quite rigid suspension components, was the secret of the Bentley's superior roadhandling. The fabric bodies had the additional advantage of being lightweight.

Bentley, a brilliant racing manager, directed his team to a string of victories in the 24 Hours of Le Mans. In addition to providing invaluable advertising, those victories made Bentley's cars the darlings of London's between-the-wars smart set. The wealthy adventurers who drove the Bentleys at Le Mans were known affectionately as "the Bentley Boys," and the corner of London's Grosvenor Square, where the U.S. embassy now stands, was in those days called "Bentley Corner," because two of the Bentley Boys had adjoining townhouses there, and the street was usually thronged with double-parked Bentleys. The Bentley Boys partied as hard as they drove, and their carefree, rakehell spirit still thrives in Bentley clubs around the world.

Mud—on the grille of a $200,000 car.

That spirit certainly survives in the star of this year's gathering in Vermont, a man named Everett Dickinson, the owner of a 1924 Vanden Plas sports tourer with the proper well-used, much-driven look. Several years ago, the annual tour stopped for lunch at the New England home of industrialist and Bentley owner William B. Ruger Sr. During lunch, the area was drowned in a rainstorm of nearly biblical proportions. As time wore on, Dickinson grew fidgety and, finally, he could wait no longer. He bundled his passengers into his open Bentley and set off down the soaked road at intemperate speed. He misjudged a hairpin turn not far from Ruger's home, and his wonderful Bentley left the road, leaped the ditch and finally came to rest in a creek.

Other Bentleys arrived. The car was dragged back to the pavement and set off again, though with one of Dickinson's passengers now at the wheel since he was a little shaken by the incident. He was 94 at the time.

This year, at 101, Everett Dickinson was driven by a friend from his home in Massachusetts to the Vermont gathering in his old Bentley. He would offer rides to his dinner companions and then demonstrate that he is still the master of his very demanding car. In recognition of his zest, his fellow Bentley drivers created a trophy in his name, which is to be awarded annually to the driver who best exemplifies the Bentley spirit.

This year's winner was John Schieffelin, 55, who owns a delicious 1926 three-liter short-chassis speed model and drives it everywhere, including in vintage car races. I rode with him, and the deft smoothness of his technique at that old car's wheel is worth an award all by itself.

Schieffelin, who sold a successful motorcycle dealership some years ago to become a househusband, certainly upholds the Bentley tradition of colorful driver/owners.

Last year he completed the New York Marathon (for the fifth year in a row), as did his 79-year-old mother (for the fourth year in a row). He races a 1956 Arnolt-Bristol and, in addition to his Bentley, owns a 1966 Bristol 409 which is his basic transportation.

The Everett Dickinson Award is in good hands.

DAVID E. DAVIS JR. *is editor/publication director of* Automobile Magazine.

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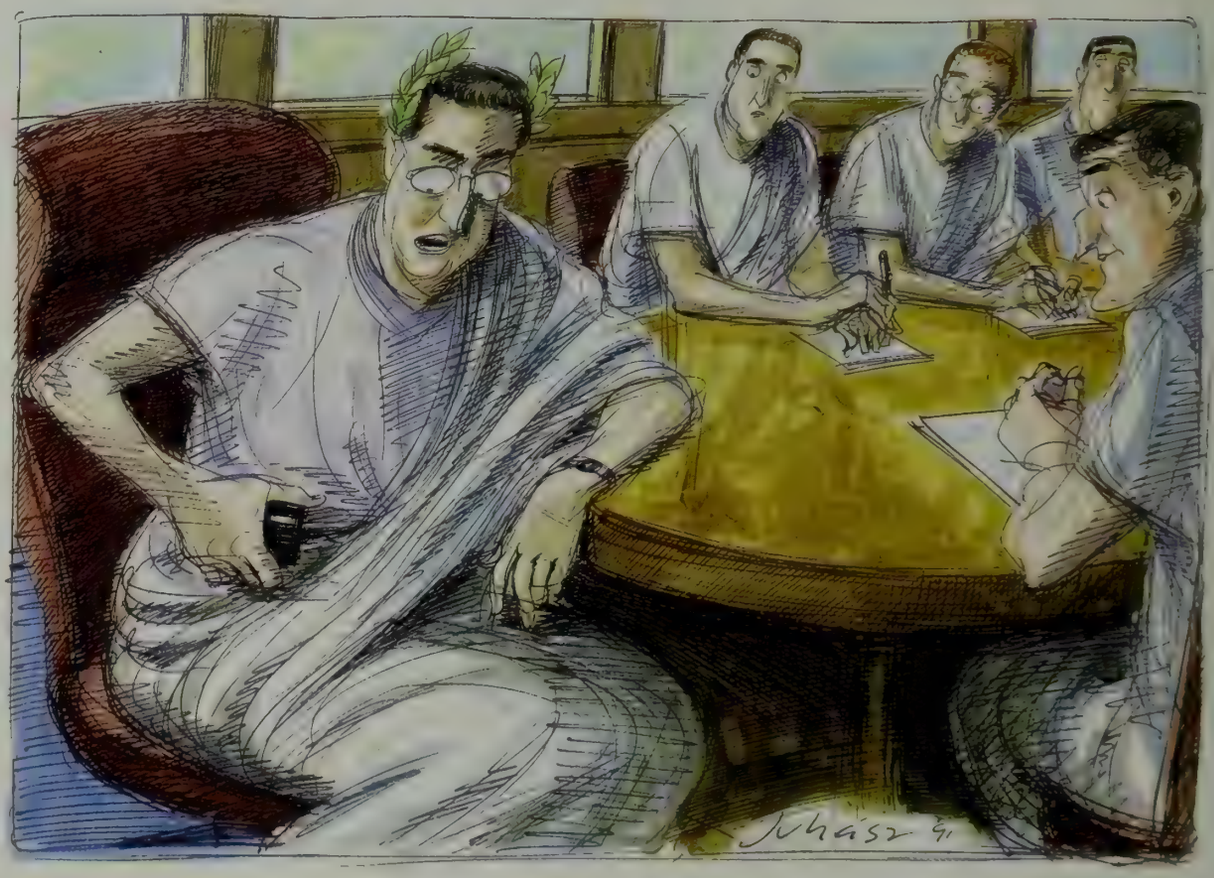
("Darn! There goes my beeper!")



IT WORKED FOR CAESAR, AND IT WILL WORK FOR YOU. IMPRESS FRIENDS AND DAZZLE ENEMIES WITH YOUR MASTERY OF THIS NOT-SO-DEAD LANGUAGE. ***By Henry Beard***

You know the feeling all too well. There you are, chatting with business associates at an upscale watering hole, or participating in a little good-natured give-and-take during a golf or tennis match, or relaxing with friends on the beach, or maybe just reviewing the events of the day with your family at the supper table. You spot a chance to liven up the discussion with a particularly pithy observation in Latin, and then, all of a sudden, you're assailed by several paralyzing doubts.

Is the verb you were going to use in the second or third conjugation? Is it irregular? Deponent? Reflexive? Defective? Does it take *ut* and a subjunctive or an infinitive with an accusative? Or, worse still, does it take the dative? Would a gerundive construction be more appropriate, or laughably awkward? How about a passive periphrastic or—but no, it's too late. The moment has passed, the conversation has moved on.

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ON THE GOLF COURSE:

Alterum ictum faciam. I'm going to take a Mulligan.

Nonne lege hiemali ludimus? We're playing winter rules, aren't we?

Nonne hoc mihi datur? This is a gimme, isn't it?

Fortunatus sum! Pila mea de gramine horrido modo in pratum lene recta volvit! Isn't that lucky! My ball just rolled out of the rough and onto the fairway!

THE UNA-MINUTIA MANAGER:

Scribe. Take a letter.

Huius Xerographiam fac. Xerox this.

Dolores capitis non fero. Eos do. I don't get headaches. I give them.

Ego te demitto. You're fired.

WHEN DEALING WITH COMPUTERS:

Cur ullum imprimere non vis? Why won't you print out?

Ne auderis delere orbem rigidum meum! Don't you dare erase my hard disk!

Non erravi perniciose! I did not commit a fatal error!

OUT-NEGOTIATE DALE CARNEGIE IN THE BOARDROOM:

Summam scrutemur. Let's look at the bottom line.

Num ista condicio optima est? Is that your best offer?

Ecce pactum. Id cape aut id relinque. That's the deal. Take it or leave it.

And if they don't: you may be struck down with a severe case of **Dolor anteprandialis** (a gastric problem that occasionally makes you cancel a lunch).

AT BROOKS BROTHERS:

Fimbriae latiores sunt. The lapels are too wide.

Mellilla, quid sentis? Honey, what do you think?

Quando praesto fiet? When will it be ready?

IN A BAR:

Da mihi sis spiculum argenteum. I'll have a martini.

Caupo! Etiamnunc! Bartender! Another round!

Frequentasne hunc locum? Do you come here often?

Di! Ecce hora! Uxor mea me necabit! God, look at the time! My wife will kill me!

TO THE IRS:

E heu, litteras istas reperire non possum. Unfortunately, I can't find those particular documents.

TO YOUR BROKER:

Credidi pretio parvo emere et magno vendere tibi in animo fuisse. I thought the idea was to buy low and sell high.

ON VACATION:

Nos opertuit tunc vertisse. We ought to have made that turn.

Mihi da tabulam. Give me the map.

Neutiquam erro. I am *not* lost.

Aliquem de via consulamus. Let's ask directions.

WITH THE CHILDREN:

Curae mihi non est quod alii parentes faciant. I don't care what the other parents are doing.

Bene, matrem tuam rogabimus. All right, we'll ask your mother.

AT A FORMAL DINNER:

Chartas loci mutemus. Let's switch place cards.

Hacine furcilla uti decet? Is this the right fork?

Mensa secunda mea flagrat! My dessert is on fire!

IN BED:

Paululum sursum et dextrorsum. A little more up and to the right.

O! Plus! Perge! Aio! Hui! Hem! Oh! More! Go on! Yes! Ooh! Ummm!

From the book LATIN FOR ALL OCCASIONS. *Copyright © 1990 by Henry Beard. Reprinted with the permission of Villard Books, a division of Random House, Inc.*

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Ah, to be young and American in Paris in the early 1950s, a "chocolate soldier" working for the CIA, hanging out in jazz bars with a woman wise in the art of love. JAMES CHACE returned to his old drops and rendez-vous *to file one last dispatch from the Cold War front.*

SATURDAY, DECEMBER 29, 1990

"*Gorbatchev Nous A Trahi*"—"Gorbachev Has Betrayed Us." The headline hits me as I walk through de Gaulle airport from my American Airlines flight to Paris. Betrayed who? The Cold War is over. I am returning to Paris for the first time in almost a decade. The last time I was here, the Cold War was at full tide. Reagan had just been elected, and I was coming back from Moscow, where I had been telling the Russians they had made a terrible mistake invading Afghanistan. I was then managing editor of *Foreign Affairs*, and it was my job to talk to Russians about high politics. It was my latest phase in fighting the Cold War, as many of my generation did who were employed as

Coming In From The Cold In Paris

editors or soldiers or in government service. Moscow had been particularly dispiriting. It was the worst time for any honest discussions, and I had spent two weeks like a boxer defending American positions against unrelenting attacks with only vodka and sturgeon to comfort me. I could not wait to eat. Moreover, it was my birthday, and my two children in their early 20s—one a street musician, the other a writer—were waiting for me at the de Gaulle airport. We went immediately to Le Voltaire restaurant on

Photograph by Monica Stevenson

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the Quai Voltaire—as I do every time I first arrive in Paris—and it was cozy and discreetly fashionable, and the food was wonderful; modest by French standards, spectacular by New York standards and beyond compare with Moscow's poor offerings.

So who had Gorbachev betrayed on New Year's Eve, 1991? Ah yes, he had betrayed the hard-liners who had depended on the Cold War to go on forever, and he had betrayed the liberalizers, Shevardnarze and company, who had hoped he would turn the Soviet Union into a democracy like ours. He had also betrayed all those in the West and the East who had earned their living from the Cold War. As John Le Carré, the great chronicler of the Cold War, had his master spy, George Smiley, put it: "The purpose of my life was to end the time I lived in." Now we are in the time of glasnost and perestroika, and in Paris, the great city of refugees from Eastern Europe, Poles who sought there the freedom that Chopin had found more than a century ago, Czechs like Milan Kundera, Romanians like Eugène Ionesco, all the diaspora of Soviet-occupied Europe who could never bring themselves to cross the Atlantic. Some of them had spent their lives in the clandestine struggles of the Cold War, and so that it was by an accident of history that I found myself drawn back into a world of fundamentally honorable men who had seen the Soviet Union collapse when an unlikely reformer, Mikhail Gorbachev, permitted the ordinary people of Eastern Europe to destroy the very foundations of postwar Europe, the Europe I had known so well, the Europe that was expected to endure without end.

SUNDAY, DECEMBER 30, 1990

I walk through the Luxembourg Gardens at the end of the afternoon to visit the most seasoned journalist I know, a man who had come to Paris decades ago to cover European politics and never went home. Except that he is to leave for the Middle East tomorrow, to cover another war if it breaks out, and I want to say hello. The sun has come out, and the children are still pushing their sailboats across the pond in front of the Palais du Sénat, in that strange purple Paris light that comes out even in January. We will meet at his apartment near the Observatoire, but then I want to go on to the Closerie des Lilas, not far away, and have a drink there, because the Closerie hasn't changed, and even though I am tired of stories of Hemingway and Fitzgerald and their days at the Closerie, I remember it from the 1950s when I drank a cold glass of sancerre and downed a dozen oysters from Bretagne.

"I'm looking for the chocolate soldiers now," my friend says.

"Chocolate soldiers? What do you mean?"

"The honorary spies," he explains. "Not the big guns, not the Burgesses or MacLeans or Klaus Fuchs, not the real soldiers, but the chocolate soldiers, spies whose betrayals were no great matter, the roster of a company of Swiss national guardsmen maybe, because they believed in the ideology of Communism. How do they live now? They weren't important enough for the Russians to give them a pension or an apartment in Moscow. Their ideology failed, didn't it?"

"And what about ours? We were chocolate soldiers, too, weren't we? Only our ideology won."

"Due to us?

"When you're on the winning side, everyone gets a share."

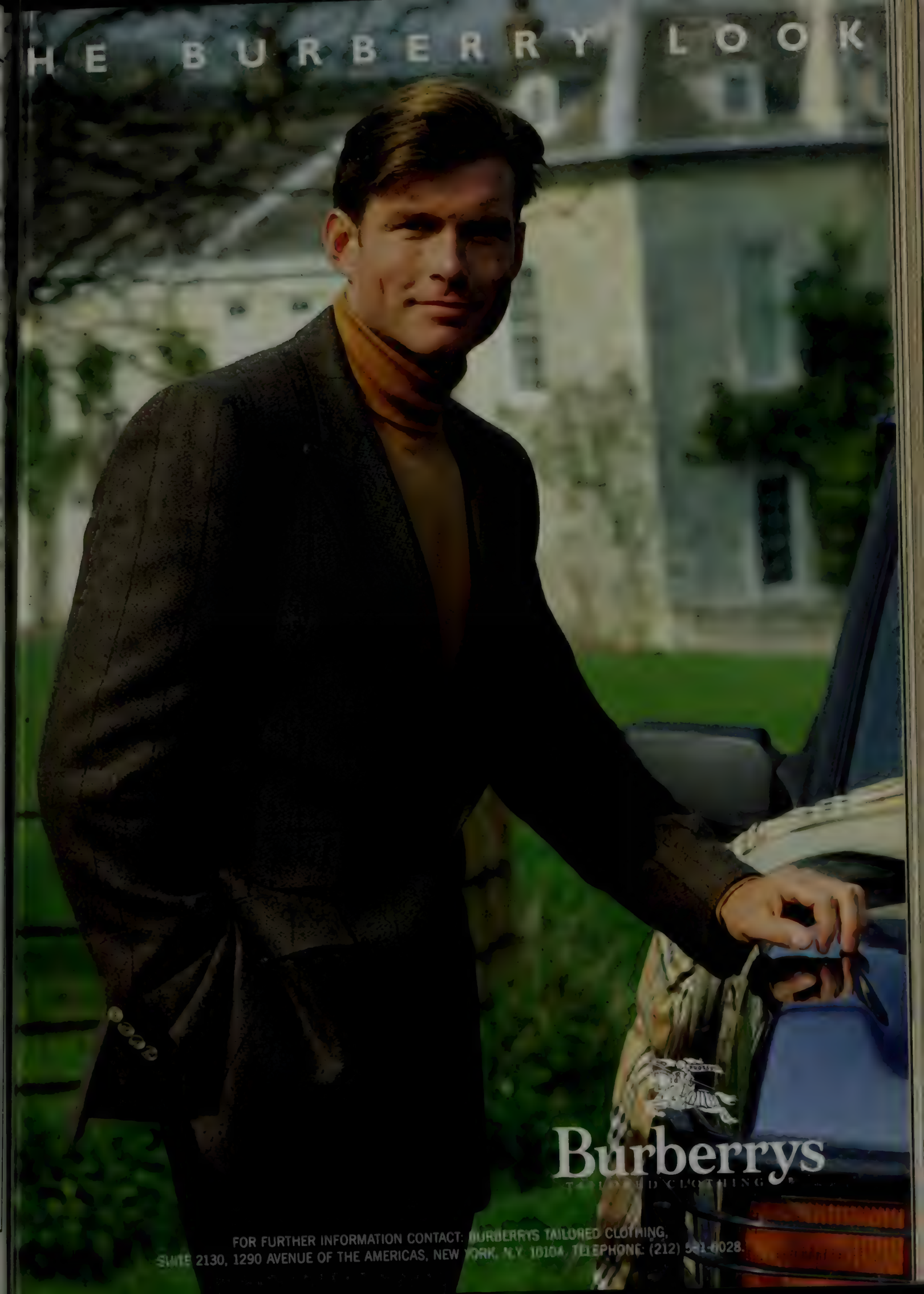
And so, coming back to Paris as I have every so often since the 1950s, means coming back to a city that has never seemed so luminous, the city in which I had once been a chocolate soldier myself. I am making love to Paris all over again—in my 50s as I had in my 20s, when I lived on the rue de la Harpe and woke up in the mornings to look out over the church of Saint Séverin. Today the rue de la Harpe is sleek with boutiques, but there is still a café with one entrance on the Boul' Mich', where I was first contacted to become a chocolate soldier for the American intelligence services.

My intelligence contact in 1953, an old Harvardian with horn-rimmed glasses and wearing chino pants, found me living in Paris, and, yes, I told him, I would see what I could find out about the French left. The Cold War was worth winning, wasn't it?

I then moved through the city as in a dream, my days in libraries, early evenings at meetings of aging Gaullists and shabby Trotskyites, and the war in Indochina raged 6,000 miles away, and I was told it threatened us all. Yet late at night, after listening to jazz on the rue de la Huchette, I would take a woman I knew to the tiny island of the Vert Galant at the tip of the Ile de la Cité, where the Seine lapped against the breakwater, and drink Champagne and watch the lights play along the towers of the Louvre.

My knowledge of French politics grew as I forced myself to read the small type of the virtually unreadable newspaper, *Le Monde*, and my reports, sketchy at first,

I want to go on to the Closerie des Lilas and have a drink there. Even though I am tired of stories of Hemingway and Fitzgerald and their days at the Closerie, I remember it from the 1950s when I drank a cold glass of sancerre and downed a dozen oysters from Bretagne.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gradually became more authoritative. When I predicted that the European Defense Community—a device designed to weld the French armed forces to the German and other West European armies—would never come into being, I was considered a master spy. Although the French foreign minister had dutifully told his American counterpart that the National Assembly would vote favorably on the defense community, I couldn't find anyone who favored it. Not the concierge. Not those students who ate *bifteck* and *pommes frites* with me at the Restaurant des Beaux Arts on the rue Bonaparte. (Did no American experts read *Le Monde*? Or was I the expert, their preferred and trusted reader?)

We fixed absurd spots for meetings where I was to pass on my reports—the bar of Air France at the Gare d'Orsay was my contact's favorite trysting place. I thought it was the very epicenter of espionage. (Now it has become the most fashionable museum in Paris, the Musée d'Orsay, of 19th-century French art.) My reputation as a fledgling spy grew. As the time came for me to return to America, I was offered a new post—and a promotion as a full-time agent—Florence. I imagined myself wearing a Borsalino and driving a Ferrari. But Florence seemed too provincial; its massive buildings reminded me of banks, as doubtless the Medici meant them to, and I was homesick for America. As a result, I went home to be drafted into the army at the end of the Korean War, and by the happenstance of my name beginning with a "C," I was sent back to France on detached service to the French Army.

I was a chocolate soldier no longer, but a real one, albeit prepared to fight a war that was never going to happen in a Europe where the lines had been drawn and would be torn down by students in Prague and shipbuilders in Gdansk only some 30 years later. I rode into Paris in my own jeep and led a high life on a corporal's salary. My venue moved to the peak of the Left Bank, the Place du Panthéon and to the Hôtel des Grands Hommes. I lived with a woman then who was some ten years older than I was, and she was the bravest person I had ever known, for she had been a pacifist in England during the Second World War. It seemed to me then, as it does now, a wrongheaded judgment, and she suffered for it, but she never complained. She taught me how to make love, as we listened to Edith Piaf, and we went to hear Juliette Greco, who used to sing at the Montana on the rue des Saints-Pères.

My last memory of the 1950s was dining at the restaurant, Le Grand Véfour, in the Palais Royal. A classmate from Harvard who was stationed in Germany had come to Paris. For Charles, life was never grand enough. Being an enlisted man in an artillery company in Southern Germany was scarcely heroic, and on his one leave to Paris, he was determined to cast a long shadow. He proposed we dine at Le Grand Véfour in evening clothes, and it seemed appropriate if we were to choose a restaurant with its Gigi-like overtones of *la belle époque*: marble tables under carved *boiserie* ceilings where Colette once lounged against the red velvet banquettes. As planned, Charles appeared in a tuxedo, but I noted some bits of color over the breast pocket. "Of course, I am wearing my medals," he said, as indeed he was, even though they were only the theater medal for the U.S. Army in Europe and, if I'm not mistaken, the Good Conduct Medal. Though Charles was an intellectual and a poet, his demeanor and decorations may have presaged his future, which was to become a top analyst for the Central Intelligence Agency, specializing in China. He died before the student demonstrations in 1989 in Tiananmen Square, but I suspect he would have been one of the few people to have predicted the willingness of Deng Xiaoping to shed the students' blood.

We fixed absurd spots for meetings where I was to pass on my intelligence reports—the bar of Air France at the Gare d'Orsay was my contact's favorite trysting place. I thought it was the very epicenter of espionage.

As I dine again at Le Grand Véfour, which had suffered during the last few years but has made a comeback, I think it appropriate that I drink to Charles, that most implacable of Cold Warriors, in the most luxurious setting in Paris, with an especially good Gevrey-Chambertin. It went especially well with the *émincé d'agneau* that followed a cold vodka and caviar.

MONDAY, DECEMBER 31, 1990.

I am walking up the rue de Varenne to Bill and Carol's. The seventh *arrondissment* is the old Faubourg St. Germain where the ministries are located and remnants of the French aristocracy, Proust's favored *quartier*, where one can still imagine the Duchess de Guermantes stepping into a carriage and leaving Swann on the sidewalk wistfully looking after her. Bill lives opposite the prime minister's offices at the Hôtel Matignon, and as I mount the stairs of his *hôtel particulier*, I can at last anticipate a New Year's Eve party that I do not dread. In the 1970s, Bill and I would eat some of the best shellfish around at the Brasserie Lutetia on the Left Bank, a hotel of somewhat dubious reputation that had once been the headquarters of the Gestapo during

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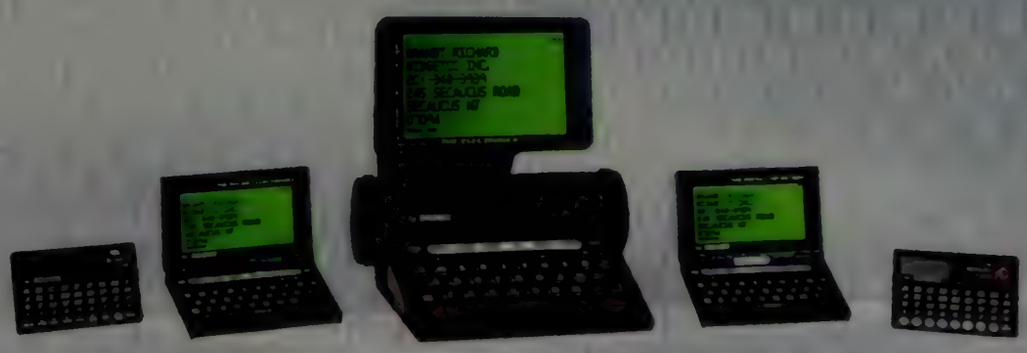

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World War II. He has been the wisest commentator on European affairs I have known over the years, and now he is writing about the end of the Cold War and warning us that Gorbachev seems to be in that pattern of reformers who are finally consumed by the revolution, as those 18th-century reformers were by the Jacobins of the French Revolution.

It is an international set of journalists and businessmen and photographers, and people are talking about *la malaise.* It seems the French are suffering from some deep-seated pessimism, even though their country has never appeared more affluent. Earlier that evening the President of the Republic in his New Year's Eve speech told his citizens to rid themselves of imaginary fears. "Fear of losing our identity, fear of a reunified Germany, fear of Japan whose products might flood the market." No, François Mitterrand reminded us, "As foreigners see us, France is strong. Let us have confidence in ourselves." But you can never change national character. Things are going too well for the French not to worry: in 1848, let's not forget, France had a revolution that overthrew the Orléanist dynasty because, it was said, *la France s'ennuie.* France was bored.

"And the Americans," a German businessman says, "the Americans are faced with shoring up failing banks and are preparing for war, and yet the polls this week show that over 60% of the American people are optimistic. You believe *anything* can be fixed."

A young Frenchman nods vigorously. "You Americans are the only superpower left. We are bewildered at what the new future will bring. What are we to do with our nuclear weapons? The Cold War is over, don't you know."

Bill appears in the doorway with a glass of Bollinger in his hand. He looks at me. "Remember when we were both working for the Free Europe Committee, and I had a rush job to print art books showing American paintings at the Helsinki youth festival?"

"We were chocolate soldiers," I tell him.

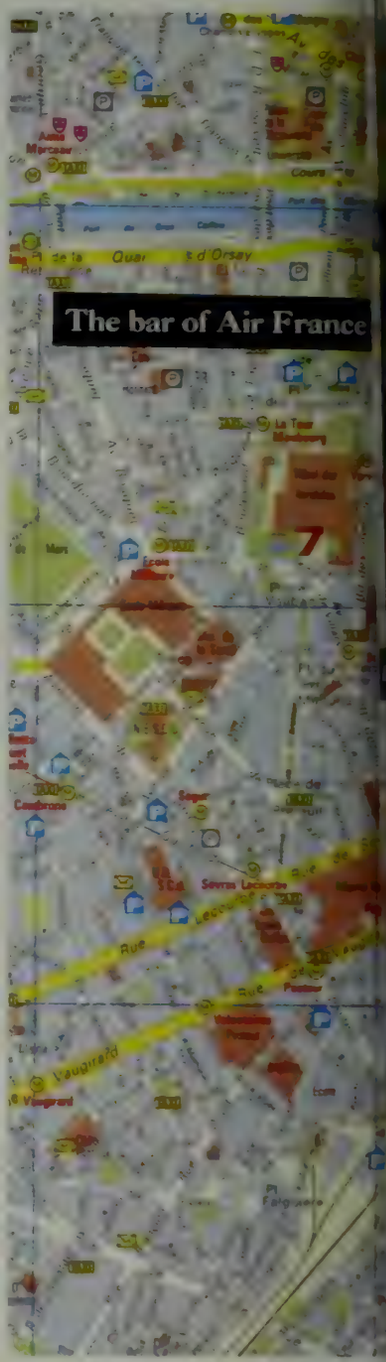
"Spear carriers might be another way of putting it?"

"Where shall we lunch on Thursday? I want to know what you think about Gorbachev."

"The Lutetia, why not the Brasserie Lutetia? The oysters are remarkably good this year."

TUESDAY, JANUARY 1, 1991

Every decade the fashions change. In the 70s the Marais district was in. The new Pompidou museum of modern art, which reminds me of a factory out of Charlie Chaplin's *Modern Times*, sparked a kind of gentrification of the old quarter, which used to be the site of les Halles. Now the new, brutally modern opera house at the Bastille is all the rage. So it is near the Bastille that I find Le Square Trousseau, the classic bistro that I like to think no other visitors know about. Usually it is packed with a mixed crowd of young professionals, easy-going locals, and men and women who simply want to dress as casually as possible and sit up late and eat well. I order the white fish known in English as skate, which tastes so rich and chewy that it seems as though it has just come from the markets that once graced this *quartier.*


The bar of Air France

In the late evening the streets of the 11th and 12th *arrondissements* are filled with young people looking for a disco or an exotic bar which features Portuguese or Korean cuisine, but after my bistro dinner I am looking for a jazz club. Paris has always been kind to jazz—it was where black musicians went when segregation was still the law in the South. Sidney Bechet played for years in Paris, and Miles Davis, and Dexter Gordon, but so far, I was finding only tired jazz in the old hangouts around St.-Germain-des-Prés. Of course there were headliners like Dizzy Gillespie at the Meridien Hotel, but jazz stars like Dizzy played in such places from Copenhagen to Madrid. And then in the rue des Halles I discover Les Bouchons. Upstairs there is a large restaurant, but below in the basement are four musicians, two French and two Americans, one of whom, Bruce Johnson, sings under the melody in a kind of post-bop swing. The roots are Dinah Washington, and the songs are "Tenderly" and "Teach Me Tonight."

I think the malaise is an illusion as I sit there nursing a scotch and Perrier. Never have the French been more accommodating than in Paris, 1991. The city gleams like the magic city of Oz, shiny neon bars alongside massive buildings that have been lit up to reveal the mustard-colored stones that have been stripped of centuries of grime. Tomorrow I leave at dawn, and

when I return, in a year, in a month, even in a decade, I expect to discover once again new layers of the city, like the Louvre museum whose medieval foundations have suddenly been laid bare by the excavations that I.M. Pei's new diamond-like pyramid revealed. But that is tomorrow, and tonight I am sitting in a *cave* and young people are sprawled on the stairs, still chain-smoking Gitanes, and the waitress doesn't even bother asking them to order a drink. The saxophonist has lit into a second set of "St. Thomas," and even if he isn't Sonny Rollins, he's making a living in Paris, and I'm listening to him, and maybe at the bar there's another chocolate soldier who's finally come in from the cold.

JAMES CHACE *is the author of the memoir,* What We Had. *He is at work on a biography of Dean Acheson.*

James Chace's Immoveable Feasts

Brasserie Lutetia
23 rue de Sevre Paris 75006 Tel: 45-44-38-10

Le Square Trousseau
1, rue Antoine Vollon Paris 75012 Tel: 43-43-06-00

Le Voltaire
27, Quai Voltaire Paris 75007 Tel: 42-61-17-49

Les Bouchons
19, rue des Halles Paris 75001 Tel: 42-33-28-73

La Closerie des Lilas
171, Blvd. du Montparnasse Paris 75006 Tel: 43-26-70-50

Le Grand Véfour
17, rue de Beaujolais Paris 75001 Tel: 42-96-46-27

The AIM *of the* GAME

The cordial instructors at Holland & Holland will endeavor to make you a shooting star.

By CHARLES STEWART DUBOW

The late Norman Clarke, former chief instructor at the Holland & Holland Shooting School in England, was unable to suffer fools and know-it-alls gladly. One day, he was giving a lesson to one of the latter who rather pompously told him that he did not want Clarke to interfere while he was shooting. Clarke obliged him and remained silent while the student shot away. Such silence was deafening, and the student could stand it no longer. "What do you do? How do you instruct?" he finally asked. Clarke took the man's gun from him and said, "Sometimes a shot has only a left hand, so I shoot like this." With his left he blasted a clay. "Sometimes a shot has only a right hand." Clarke switched the gun to his other hand and destroyed another clay. "Sometimes they haven't any strength in either arm," he said, aiming from the hip as another clay disintegrated. "Sometimes they can only shoot with the gun upside down," he added, and shattered another clay in that curious fashion. The know-it-all had had enough and apologized.

Anyone who has ever been invited shooting in England has usually learned that there is much more to it than simply knowing when to pull the trigger. Like so many of the most established British customs, shooting has long since evolved beyond its primitive origins into a very stylized ritual. There is a seemingly endless amount of minute details to be committed to memory, ranging from what clothes to wear to how much to tip the gamekeeper. Fortunately, though, you don't have to be to the manor born to acquire this vital information. Holland & Holland, one of England's top gunmakers, owns and operates a shooting school just outside of London where the aspiring sportsman can pick up enough tips to make himself a welcome guest at any shooting weekend.

The school, situated on 65 acres of prime parkland, has

been the property of Holland & Holland since 1931. Unlike many of the other top London gunsmiths—such as Purdey and William Evans—who have long since sold off their schools (though they offer instruction elsewhere), Holland & Holland has seen the wisdom in retaining its own, much as a top sports car maker might maintain a race track for the convenience of its customers. You don't need to own a Holland gun in order to take lessons at the club, though. Everyone is treated equally regardless of actual status or ability; all vanity and pretense vanish when you shoulder your shotgun.

When you arrive at Holland's for the first time, your instructor will size you up, and from the gun room select a Holland's shotgun that comes nearest to fitting you best. In shooting, as with most things, proper fit is essential. That is one of the reasons why some people are willing to pay insane amounts of money to acquire guns that are made to their own measurements. (A new shotgun at Holland's costs approximately $52,000 and takes nearly three years to complete, and that's just the basic model.)

In order to gauge the fit properly, your instructor will take you out to the range and tell you to shoot at one of four circles on a whitewashed wall roughly 20 yards away. You fire three or four times, your instructor telling you after each shot, "a little to the left" or "aim lower." He will check and correct your stance if it needs it, and it usually does, and establish which is your dominant eye. Then, finished with his evaluation of you, he will take away the gun you have been using and begin fiddling with another, rather odd-looking gun known as a try-gun. The try-gun is a singular contraption that, through the manipulation of its many hinges, joints and extensions, allows your instructor to twist, bend or elongate it until it nestles in your arms as though it had been made for you. When he is satisfied with it, he will hand it to you and ask you once more to shoot at the whitewashed wall. The difference in your aim is remarkable; you find yourself wondering how you had ever managed to hit anything in the past. Each time you'll be dead-on, and your instructor, feeling you are ready, will then take you to the clay pigeon range where the real fun begins.

The idea behind sporting clays is that they are designed to approximate as nearly as possible the flight patterns of the birds you will be shooting. If pheasant is your game, the school has a number of towers where clays are sent out over your head, one or two at a time depending on how accurate you are feeling, where you may blaze merrily away at them. Or, if you prefer grouse, there are traps that simulate the low, fast approach of those notoriously difficult birds. Even with the try-gun your shooting won't be perfect, and your instructor will be politely whispering, "Very good, sir, maybe more to the left," or, "I think it might be a good idea for you to aim in front of the bird, sir."

If your interest is big game, Holland's also has a 100-yard full-bore range where you can receive instruction with a rifle. Holland's is as famous for their rifles as

Shooting

1. Arrive late—and drunk.

2. If you don't like the position you've been given, find one you like better.

3. Borrow other people's cartridges while loudly complaining that you refuse to buy them yourself on principle because they're overpriced.

4. You own the skies—if your neighbors aren't fast enough, their birds are yours.

5. Sneaky birds fly low—so yell for everyone else to duck and blast away.

6. Feel free to make suggestions to your host as to how he could improve his shoot.

7. Feel it very important to call Tokyo on business from your host's car phone.

From the Hip Flask

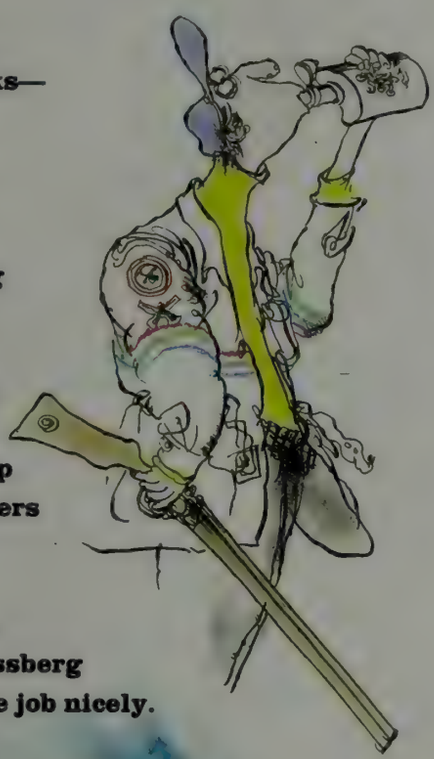
And Other Ways To Impress Your English Hosts.

8. Help yourself to everyone else's flasks—your aim improves considerably after a couple of drinks.

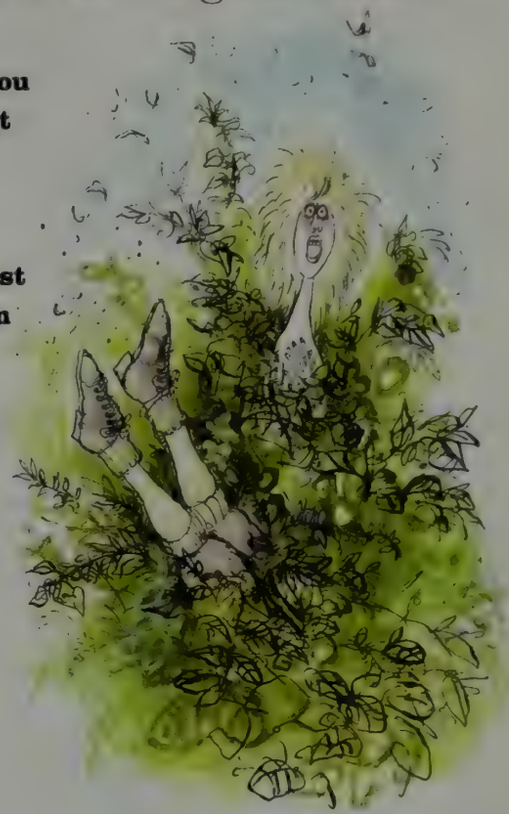
9. Shoot at anything that moves.

10. Wear your lucky Day-Glo orange vest and your baseball cap that says "Shotgunners Pump Better."

11. Use a *man's* gun —a pump-action Mossberg Persuader will do the job nicely.



13. Even if you can't see what it is, fire a couple of rounds into the bushes just to soften them up in case a pheasant is trying to pull a fast one.



12. Don't bother tipping the gamekeeper, he'd be insulted. If he's the persistent type, only carry large bills and ask him to make change.

14. Always keep *your* gun loaded and the safety off in case there are still a couple of birds left.

for their shotguns; they hold the royal warrant as the Duke of Edinburgh's riflemakers. And, although they do not make them, it is also possible to receive pistol instruction.

There are certain crucial differences between English and American styles of shooting. First, most Americans learn how to shoot with rifles, usually .22s, and this gives them the habit of aiming with one eye screwed shut. That is one of the first things Holland's works to correct. A proper shot keeps both eyes on the bird, relying heavily on the so-called "instinctual" method of aim, a style well-suited to shooting the relatively low-flying sport birds of England. Due to their erratic flight patterns, it is difficult to *lead* such birds—in other words, waiting for the target to fly into your sights—as opposed to the *tracking*, or instinctual, method taught at Holland's—where the gun follows the target. Many Americans, used to high-flying birds, may find this unnatural or awkward at first (not unlike a baseball pitcher learning how to fast-bowl in cricket), but will ultimately be rewarded by their success against partridge and pheasant. When you are shooting with a beautifully made gun, which should fit you as though it were an extension of your arm, the whole action becomes more organic, almost as simple as merely aiming and shooting.

Another difference is in the kinds of game one is shooting. Americans tend to hunt duck, wild turkey, quail and dove. The English almost exclusively shoot pheasant, partridge and grouse; sometimes they'll venture to the Highlands after the elusive Scottish capercaillie, but that is a challenge best left to the bold.

Undoubtedly, the biggest difference is in *how* the English shoot. They primarily shoot driven game; that is, birds that are flushed from a cover by dogs and beaters who start from the opposite side of the wood from where the guns are standing. The birds, fleeing the oncoming beaters, will fly, if all goes to according to plan, directly towards the waiting guns.

Beyond this is the *gravitas* that the English attach to "shooting" (which is the term they use; "hunting" to them means dressing up in pink coats and galloping after foxes). Let's say that you're an international lawyer or banker, and your firm or a client has invited you to a shoot. As is well-known, the English are sticklers for what they call "form." It's not just shooting to them; it's one more variation of a way of life, albeit a dying one, and therefore treated with a sanctimoniousness that is rarely accorded the living. Woe betide the businessman, therefore, who arrives blithe and untutored. If you show bad form—which is perilously easy at this mannered recreation—the English will look at you as though had just crawled down from a tree.

These days, there are fewer and fewer of the traditional sort of shoots that were once held at private houses. Because of taxes, as well as the cost of upkeep and the gamekeeper's salary, maintaining a shoot is very expensive and rather frivolous if done purely for pleasure. Today it is more common that shoots are rented out during the season to syndicates, groups of men who have pooled their money to lease the shooting rights. Usually the landowner will reserve only a few days a year for himself, knowing that such sacrifice is necessary to keep the old family castle from sinking into the moat.

The decline of private shoots, however, has been a boon for Holland's. There's no quicker way to sharpen one's rusty aim than to spend a day or two at Holland's before going on a shoot. That way you're ensured of having better sport, as well as being fairly sure of a return invitation; nothing rankles a host more than to feel that he has squandered a perfectly good day's shooting on a bad shot.

So, whether you are a rank beginner, an old hand simply wanting to keep in practice before or after the season, or an adventurer planning an expedition to hunt water buffalo in Bulawayo, Holland & Holland is the place to go first. The only drawback is that by the end of your visit you will find yourself seriously considering taking out a second mortgage to buy one of their guns.

If you show bad form—which is perilously easy at this mannered recreation—the English will look at you as though you had just crawled down from a tree.

CHARLES STEWART DUBOW *is an editorial assistant at* American Heritage.

SHOTGUN ENGAGEMENTS

To arrange a lesson at the Shooting School, or to request one of their instructional videos, write to: Holland & Holland Shooting School, Ducks Hill Road, Northwood, Middlesex, England HA6 2SS. The school is easily accessible from London by both car and rail. Charges for a single lesson start at £52 ($85) per hour with additional rates for cartridges and clay birds used. One may double up on lessons as well as purchase courses of six lessons and gift vouchers. Young shooter's lessons begin at £47 ($77). One of the best aspects of the school is that it provides corporate entertainment in the form of morning, afternoon and evening shoots beginning at £110 ($180) per gun (for a minimum of 20 guns), the price of which includes over-the-shoulder instruction, cartridges and clays. For further information contact Major Henry Blosse-Lynch, director of the school. Telephone: 011 44-71-4994411; Fax: 011 44-71-4994544.

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GERMAN SHORTHAIRED POINTER

CH. CHARLENS SURELY YOU JEST

CHARLENS ACRES
Charles and Helen Ingher
Putnam Valley, NY

All prices in this story are approximate; for store information, see last page. Wool Aspen jacket, $595, and wool cable-knit sweater, $205, by Joseph Abboud. Denim shirt by Alexander Julian. $67.50. Cotton pants by Nautica. $56. Wool socks by Barbour. $13. Chukka boots by Timberland. $195. Madder silk scarf by Coach. $125. Her suede parka, $2,995; merino wool sweater, $495; and stretch stirrup pants, $475; by Cerruti 1881.

PHOTOGRAPHED BY MONICA STEVENSON

Fashion Pointers

Okay, you've got your oiled cotton jacket, buffalo plaids, and waterproof boots. But aren't you forgetting something? Out there in the field, you're naked—naked—without a dog. He may be man's best friend, but he's also the essential outdoors accessory. What to wear with green rubber waders? May we suggest something in a golden retriever? With the houndstooth? The German shorthaired pointer, we think. This fall, put on the dog.

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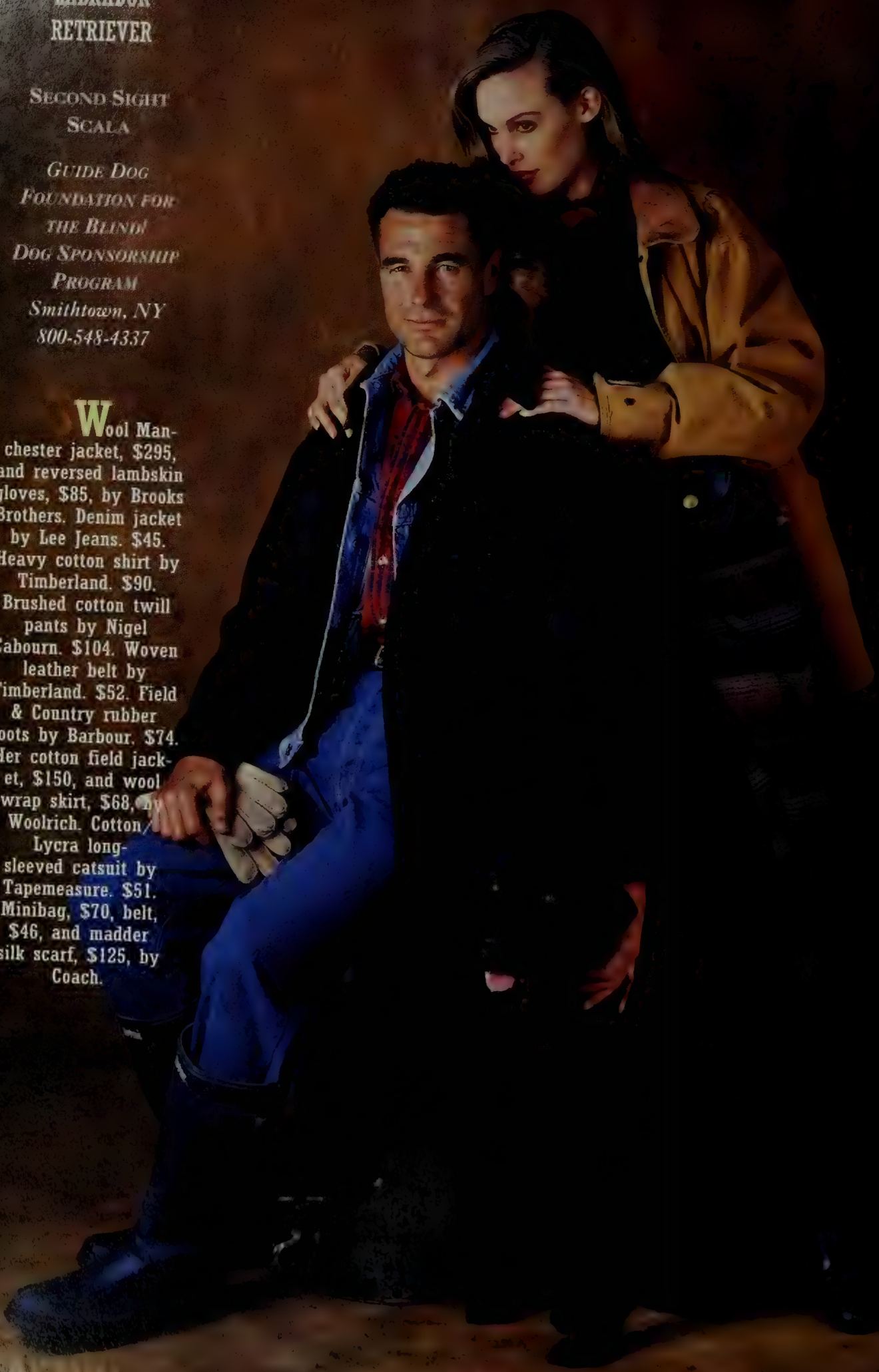


Wool Manchester jacket, $295, and reversed lambskin gloves, $85, by Brooks Brothers. Denim jacket by Lee Jeans. $45. Heavy cotton shirt by Timberland. $90. Brushed cotton twill pants by Nigel Cabourn. $104. Woven leather belt by Timberland. $52. Field & Country rubber boots by Barbour. $74. Her cotton field jacket, $150, and wool wrap skirt, $68, by Woolrich. Cotton/Lycra long-sleeved catsuit by Tapemeasure. $51. Minibag, $70, belt, $46, and madder silk scarf, $125, by Coach.

GOLDEN RETRIEVER

PEPPERHILL'S NO LOOSE ENDS "LUCY"

PEPPERHILLS KENNELS REG.

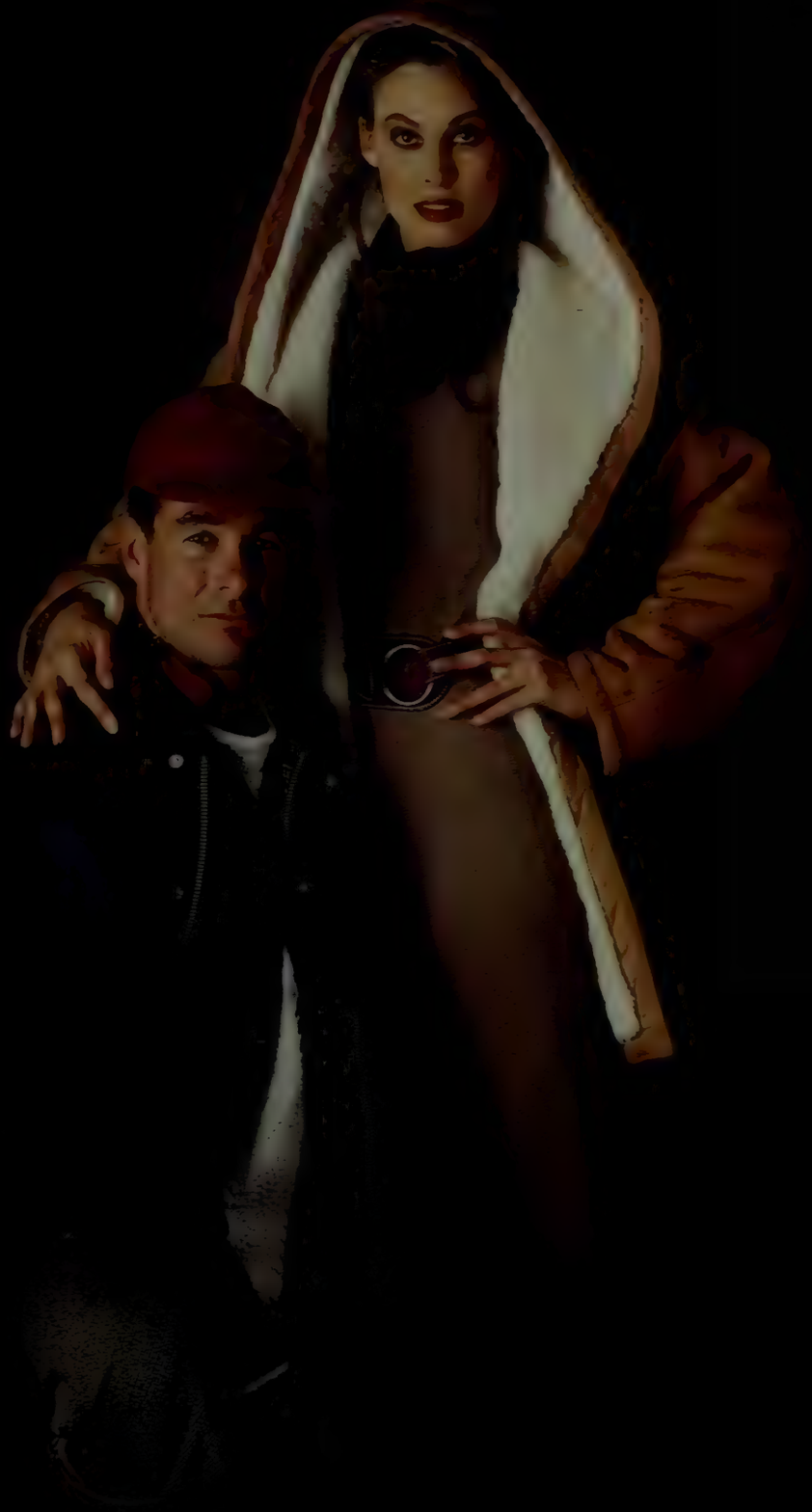
Buffalo plaid wool jacket (on seat) by Woolrich. $80. Super Tak-L-Pak fishing vest, $72, and HLS Cutthroat 9' rod with Battenkill 5/6 reel and line, $435, by Orvis. Fair Isle wool sweater by Brooks Brothers. $195. Orange corduroy shirt by Calvin Klein. $70. PVC chest waders by Barbour. $210.

ENGLISH SPRINGER SPANIEL

Ch. Kirwin Boxcar Willie C.D.

Kathryn Kirk/ Kirwin Springers Oxford, CT 203-881-0040

Waxed cotton Packer coat by C.C. Filson. $212. Cotton/rayon camp shirt by Greif's Gray's by Gary Wasserman. $97.50. Maine Guide shooting vest, $69, and gloves, $26, by L.L. Bean. Grey wool pants by Woolrich. $68. "Superboot" by Timberland. $230. Stainless steel Speedmaster Professional watch by Omega. $1,500. Yakima camp blanket by Pendleton. $44. Waterfowler/Sporting Clays Over-and-Under shotgun by Orvis. $2,850.



GORDON SETTER

CH. CHARLENS KERRI KILLENE

CHARLEN ACRES
Charles and Helen Ingher
Putnam Valley, NY

"Beaufort" thornproof oilcloth coat by Barbour. $320. Poplin hunting vest by C.C. Filson. $106. Handknit cotton sweater by The Gap. $95. Royal Stewart wool scarf by Brooks Brothers. $40. Cotton twill pants by Ruff Hewn. $75. Wool melton cap by Pendleton. $11.25. Gokey Snakeproof boots by Orvis. $375. Her shearling coat, $1,300; belt, $84; and boots, $188; by Timberland. Stretch top, $130, and stirrup pants, $108, by Bettina Riedel. Madder silk scarf by Coach. $125.

WEIMARANER

Cil Norman's Greywind Phoebe Snow

Greywind
Ellen Grevatt
Chester, CT

Cotton canvas jacket with mouton collar, $575; wool sweater, $395; corduroy shirt, $97.50; and corduroy pants, $77.50; by Polo by Ralph Lauren. Boots by Ralph Lauren Footwear. Socks by Ralph Lauren Hosiery. $13. Her wool gabardine greatcoat with mouton collar, $1,900; black cotton/wool turtleneck, $175; and black wool-blend trail pants, $195; by Ralph Lauren Country. Black leather gloves and boots by Ralph Lauren.

BRITTANY

CH. BRUZZONE'S SON KISSED

Michael and Lisa Bruzzone
Toms River, NJ
908-244-0421

Deerskin parka by Calvin Klein. $1,000. Rayon hombre plaid shirt by Ruff Hewn. $75. Cotton long-sleeved T-shirt by Banana Republic. $26. Easy-fit jeans by Calvin Klein. $56. Handwoven braided belt by Coach. $72. Wool socks by Ralph Lauren Hosiery. $13. Gore-tex thinsulate-lined ankle boots by H.H. Brown. $175. Thornproof hunting cap by Barbour. $32. Chronograph with leather strap by Swiss Army Brand. $700.

POINTER

CH. LUFTNASE
ALBELARM
MR. BENTLEY

HONORA'S
KENNELS
Glen Wild, NY

Split cowhide jacket with steerhide collar by Schott NYC. $250. Natural tweed zip-front cardigan by Pendleton. $82.50. Cotton T-shirt by Calvin Klein. $32. Cotton shirt by Nautica. $56. Brushed cotton twill pants by Izod. $55. Leather belt by Joseph Abboud. $85. 12" Maine Hunting Shoes by L.L. Bean. $79. Pigskin gloves by Ermenegildo Zegna. $200. Madder silk scarf by Coach. $125. PRX Automatic watch by Tissot. $725.

FASHIONABLE DOGS

By Geoffrey Norman

LABRADOR RETRIEVER

The Lab's origins are in Newfoundland—not Labrador—where he fetched rope from ship to shore for seamen who watched his work and were impressed by his strength, his swimming ability and, above all else, his drive. The dog loved, in equal mea-

sure, to work and to please his master. In the 1820s, the Lab's ancestors made it back to the British Isles where the second Earl of Malmesbury began to breed them for sport. A peerless retriever of waterfowl, and a fine flushing dog on pheasant and other upland species, the Lab's greatest virtue is, perhaps, as a companion. When he is on the job, the Lab turns in an honest day's work. When he is off duty, the Lab seems to feel a need to keep people amused. He will chase and fetch anything for as long as anyone is willing to throw it. He will play with children until they get tired. He will eat or hide anything that isn't nailed down. He has an absolute genius for stunts. There is not a heart so cold (save that of W.C. Fields) that a Lab could not warm it. *(Contact: Christopher Wincek, Labrador Retriever Club Of America, Chardon, OH. 216-621-8700.)*

BRITTANY

The Brittany is a small dog, almost furtive, as the hunting breeds go. He was known by some of his original French owners as "the poacher's dog," because he was good for getting a brace of some nobleman's grouse and

then getting off the estate before the law arrived. Inevitable, then, that the breed should make its way to America. In the New World, however, the Brittany has become a solid, middle-class citizen, the pointing dog of choice for the hunter whose field dog must double as a pet. The Brit is fine in the house, with kids, and when seen doing domestic duty seems almost too much of a sissy for field work. But in a New England grouse covert the dog is all heart and all business. *(Contact: Velma Tiedeman, American Brittany Club, Omaha, NE. 402-553-5538.)*

GERMAN SHORTHAIRED POINTER

The shorthaired was developed to do everything a good German dog should do except, perhaps, invade Poland. It hunted large and small game. Trailed, retrieved and pointed. At one time, it probably could clean a shotgun and cook hasenpfeffer. Naturally, it thrived on discipline. In the U.S., the dog is ideal for the upland hunter—of, say, pheasant—who wants a dog that is both good in the house and strong in the field, suitable for close hunting but able to range.

A dog that will retrieve and, when necessary, trail game. A dog that is smart and loyal and does not require a lot of specialized, sensitive training. The shorthaired is the supremely practical breed. *(Contact: Geraldine Irwin, German Shorthaired Pointer Club Of America, Englewood, CO. 303- 781-1995.)*

POINTER

Though the breed was developed in England and was, once upon a time, called the English Pointer, there is no more purely American hunting breed. Some three or four centuries ago there was a cross between a Spanish pointer and some kind of fox hound, and the pointer characteristics abide. This dog loves to hunt and to run. One often hears a pointer described as a "big running dog," which means he hits the

ground and heads for the county line. He is the dog of choice on the Southern quail plantations, where the hunting is done off horseback, jeep or mule wagon, which is the only way to a) cover the ground and b) keep up with the dogs. The pointer is not much for demonstrations of affection and the social graces. Pointers take a lot of training and a lot of handling (they say you need a two-by-four to get a pointer's attention), but the boys who hunt them, down in the pine

trees and broom weed, feel for them the kind of affection a rancher would feel for a good cutting horse. Probably no other living thing so purely expresses the hunting urge.
(Contact: Fran Johnson, American Pointer Club, Floral City, FL. 904-344-9785.)

GOLDEN RETRIEVER

Developed by Lord Tweedmouth as a cross between the off-colored pups (called "sports") of flat-coated retrievers and Tweedwater spaniels—not from Russian Trackers as legend would

have it. The golden retriever is one of the most popular breeds in the world today, as a show dog, a pet and obedience dog, and as a field dog. While the Lab is vastly more popular among sportsmen, the golden is every bit as good in the field and quite close in the water. Less exuberant than the Lab, the golden is more serious. More inclined to give its loyalty to a single owner or family. Matter of one's dignity, you see. What you'd expect, Scottish ancestry and all.
(Contact: Linda Atwell, Golden Retriever Club Of America, Albuquerque, NM. 505-821-9471.)

WEIMARANER

The weimaraner was developed at the Court of Weimar in the 19th century and trained, with German thoroughness, to do it all. Everything from trailing wounded stag to pointing birds. That kind of pressure to perform produced a temperament that was not tough, as you might expect, but sensitive. The weimaraner is a high-strung dog that requires a lot of attention and affection, and tends not to transfer its loyalty easily. It is a one-man or, certainly, a one-family dog. And when things go wrong, it can be a bad actor. Which many of the Americans who bought the dog after World War II, hearing of its remarkable versatility, discovered to their woe. Now, with time, people have begun to rediscover the undeniable virtues of the breed, likely the most intelligent of all the pointing dogs as well as the most loyal.
(Contact: Dorothy Derr, Weimaraner Club Of America, Nashville, TN. 615-832-9115.)

GORDON SETTER

Larger than the English or Irish setter, the Gordon is a methodical, patient, slow-working pointing dog ideal for small areas with tightly holding birds. For hunters less interested in a flashy show than a thorough job, the Gordon delivered. The breed was developed by the fourth Duke of Gordon at his estate in the Scottish highlands. It is a very intelligent, intensely loyal, and somewhat quiet dog. A gentleman.

(Contact: Phyllis Tew, Gordon Setter Club Of America, Englewood, CO. 303-773-2383.)

ENGLISH SPRINGER SPANIEL

The springer is a small, tightly wrapped dog. Highly active, but tractable, the springer is a fine retriever and is often referred to as the ultimate pheasant dog. The springer loves the work and will sit, quivering, while the hunters dismount, load and walk in on the pointed birds. In a cut over wheat field, on pheasant, the dog is active but close-working, good at making the birds flush while keeping them in range. Springers make good pets, stout field dogs, and look wonderful at a tailgate party.

(Contact: Marie Andersen, English Springer Field Trial Assn., Auburn, WA. 206-839-7937.)

STORE CREDITS

-GERMAN SHORTHAIRED POINTER: *Jacket and sweater by Joseph Abboud*: jacket at The Hub, Raleigh, NC; Park Justin, Aspen; and Bloomingdale's, New York; sweater at Macy's, San Francisco; Britches of Georgetown, Washington, DC; and John's & Co., Phoenix. *Shirt by Alexander Julian*: Frank Stella, New York; Franklin's, Phoenix; and Gary's, Newport Beach, CA. *Pants by Nautica*: Nautica Stores, New York and Newport Beach, CA; Kaufman's, Pittsburgh; and Macy's Northeast stores. *Boots by Timberland*: Timberland stores in Newport, RI; Annapolis, MD; Sausalito, CA; Boston; and Washington, DC. *Socks by Barbour*: Orvis, New York; and Swaine Adeney, San Francisco. *Scarf by Coach*: Coach stores nationwide. *Her parka and sweater by Cerruti 1881*: V.I.P. Boutique, Los Angeles. *Stirrup pants*: Lina Lee, Beverly Hills; and Harriet Kassman, Washington, DC. LABRADOR RETRIEVER: *Jacket and gloves by Brooks Brothers*: to order, or for stores in your area, call 800-274-1816. *Denim jacket by Lee Jeans*: Belk's stores nationwide. *Shirt and belt by Timberland*: Timberland stores nationwide. *Pants by Nigel Cabourn*: Louis, Boston; and Rosey Jekes, Hanover, NH. *Boots by Barbour*: Britches of Georgetown, Herndon, VA; Legend Outfitters, Conroe, TX; and A.B. Bilzerian, Boston. *Her jacket and skirt by Woolrich*: for stores in your area, call 800-962-8974. *Bodysuit by Tapemeasure*: Saks Fifth Avenue, Macy's, and Bloomingdale's stores nationwide. *Bag and scarf by Coach*: Coach stores nationwide. GOLDEN RETRIEVER: *Jacket by Woolrich*: for stores in your area, call 800-962-8974. *Sweater by Brooks Brothers*: to order, or for stores in your area, call 800-274-1816. *Shirt by Calvin Klein*: I. Magnin, Chicago; Macy's Northeast; and all Calvin Klein stores. *Waders by Barbour*: Hunter Bradlee Co., Dallas; and Swaine Adeney, San Francisco. *Vest, rod and reel by Orvis*: Orvis, New York, Philadelphia, and Boston. ENGLISH SPRINGER SPANIEL: *Jacket by C.C. Filson*: To order, or for stores in your area, call 800-624-0201. *Vest and gloves by L.L. Bean*: to order, call 800-221-4221. *Shirt by Greif's Gray's*: Nordstrom, Oakbrook, IL; Gary's & Co., Marina Del Rey, CA; and J.P. Poll, West Hartford, CT. *Pants by Woolrich*: for stores in your area, call 800-962-8974. *Boots by Timberland*: Timberland stores nationwide. *Watch by Omega*: Tourneau, New York; Ben Bridge, Seattle; and Mayors, Miami. *Blanket by Pendleton*: Mattawan, New York; and Pendleton Specialty Stores nationwide. *Gun by Orvis*: Orvis, New York, Philadelphia, and Boston. GORDON SETTER: *Jacket by Barbour*: Orvis, New York; A.B. Bilzerian, Boston; and Rowbottoms & Willoughby, Chicago. *Vest by C.C. Filson*: To order, or for stores in your area, call 800-624-0201. *Sweater by The Gap*: The Gap stores nationwide. *Pants by Ruff Hewn*: Lord & Taylor, New York; Belk's, Morrisville, NC; and Parisian, Birmingham, AL. *Scarf by Brooks Brothers*: to order, or for stores in your area, call 800-274-1816. *Cap by Pendleton*: Pendleton Specialty Stores nationwide. *Boots by Orvis*: to order, call 800-541-3541. *Her coat, belt, and boots by Timberland*: Timberland stores nationwide. *Top and pants by Bettina Riedel*: The Cage, Virginia Beach; B. Barnett, Little Rock; and Blooming dale's stores nationwide. *Scarf by Coach*: Coach stores nationwide. WEIMARANER: *Jacket*: Polo/Ralph Lauren, New York and Greenwich, CT. *Sweater*: Polo/Ralph Lauren, Chicago and Philadelphia. *Shirt*: Polo/Ralph Lauren, Beverly Hills and Santa-Barbara. *Pants*: Polo/Ralph Lauren, New York; and the Polo Country Store, East Hampton, NY. *Her jacket, turtleneck, and pants*: Polo/Ralph Lauren, New York, Dallas, and Birmingham, MI. BRITTANY: *Parka and jeans by Calvin Klein*: Parka at I. Magnin, Chicago; jeans at Lord & Taylor, New York; both at Macy's Northeast. *Shirt by Ruff Hewn*: Nordstrom, Los Angeles; Banbury Cross, New York; and Hartmarx, Columbus. *T-shirt by Banana Republic*: Banana Republic stores nationwide. *Boots by H.H. Brown*: Paragon, New York; and Nordstrom, and Johnston & Murphy stores nationwide. *Socks by Ralph Lauren Hosiery*: Barneys, New York; Neiman Marcus, Dallas; and Mark Shale, Chicago. *Cap by Barbour*: Hunter Bradlee Co., Dallas; Rowbottoms & Willoughby, Chicago; Orvis, New York. *Belt by Coach*: Coach stores nationwide. *Watch by Swiss Army Brand*: Saks Fifth Avenue stores nationwide. POINTER: *Jacket by Schott NYC*: 59th Street Menswear, New York; Palais des Modes, Los Angeles; and Kittery Trading Post, Kittery, ME. *Cardigan by Pendleton*: Frederick and Nelson, Seattle; Kline Bros., Wisconsin Rapids, WI; and Pendleton Specialty Stores nationwide. *T-shirt by Calvin Klein*: Calvin Klein Stores in Dallas; Chestnut Hill, MA; and Costa Mesa, CA. *Shirt by Nautica*: L.S. Ayres, Indianapolis; and G. Fox, Hartford, CT. *Pants by Izod*: Dayton's, Chicago; *Belt by Joseph Abboud*: Joseph Abboud, Boston; and Saks Fifth Avenue, New York. *Boots by L.L. Bean*: to order, call 800-221-4221. *Gloves by Ermenegildo Zegna*: Ultimo, Chicago; Louis, Boston; and Ermenegildo Zegna, New York. *Scarf by Coach*: Coach stores nationwide. *Watch by Tissot*: Marshall Field's, Chicago; Macy's and Bloomingdale's stores nationwide.

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ALOHA HAWAII

A beginner's guide to paradise

DON KING/THE IMAGE BANK

Almost 2,400 miles southwest of San Francisco, Hawaii is the most isolated land mass in the world. But 30-plus years into the Jet Age, it's hardly off the beaten path. Last year just under seven million people visited the Aloha State. Yet no matter how many times you've been there, Hawaii surprises.

When most people think of Hawaii, they think of beautiful beaches and gigantic, white-capped waves. That's certainly understandable. With 283 beaches to choose from, Hawaii offers a real taste of paradise. But Hawaii is much more than beautiful beaches, as even first-time visitors can discover.

EXPERIENCING PARADISE

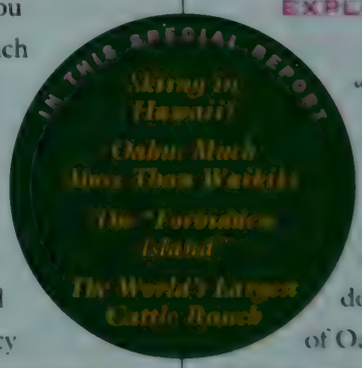
Adventures and surprises await visitors on each island. On Maui, for example, start your morning bicycling down Haleakala, an extinct volcano. Then spend a breezy afternoon wind-surfing on some of the best waters in the world.

Surfing championships and golf tournaments are abundant, but did you know Hawaii hosts a rodeo and a downhill ski race? The latter is held in March on the slopes of Mauna Kea, a 13,000-foot volcano on the Big Island. If you're a football fan, make plans to watch the Hula Bowl, the collegiate all-star game. For local flavor, visit the ukelele and cherry blossom festivals.

HAWAIIAN FOOD: A FEAST FOR THE EYES AND PALATE

Hawaii's unique cultural and ethnic mix means you can sample just about any kind of food you want, from gourmet French and Italian to local Hawaiian plate lunches of teriyaki beef or roast pork with scoops of rice and macaroni salad dished up at drive-ins and lunch wagons. If you fancy Asian food, Hawaii has it all: sushi bars, Korean barbecue, Vietnamese noodle shops and excellent Thai and Chinese restaurants.

It pays to be adventurous. While driving around Oahu or the Neighbor Islands, stop and sample the local Hawaiian favorites. One is huli huli (barbecued) chicken. You won't find this at a restaurant — it's usually served up on the weekends in supermarket parking lots. Look for the clouds of smoke billowing from portable barbecue pits. Stop by a roadside stand selling fresh cooked corn, or, if you're thirsty, try a "shave ice," Hawaii's equivalent of a snow cone. All is fresh and truly delicious!



EXPLORING OAHU

Oahu, Hawaiian for "the gathering place," is the state's most populated island, with approximately 800,000 residents. Most visitors don't realize that the island of Oahu is much more than Waikiki and Pearl Harbor, and unfortunately that's about all the

The eye travels from softly rolling cliffs, over Hanalei Bay and to craggy Bali Hai. This could only be one place in the world. 45 holes of incomparable golf. The brand-new, ultra-luxurious Princeville Hotel. Secluded beaches and every water sport known to man. Nature's abundance is everywhere. True, you won't want to leave, but that's all right. If your heart is here, the rest of you may as well stay, too. Princeville Resort. You cannot remain unchanged by the experience.

Princeville Resort
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For Resort information, call your travel agent or (800) 826-4400. Or write Princeville Resort, P.O. Box 3040, Princeville, Kauai, Hawaii 96722-3040.

SUN STAR/HAWAII VISITORS BUREAU

exploring many people do on the island.

Honolulu is one of Oahu's greatest attractions and offers visitors a rich assortment of Hawaiian culture and history. The state capital, Honolulu is becoming a business center for the Pacific Basin. More and more companies are setting up offices in Honolulu as the Pacific link for doing business in both the U.S. and major Asian centers such as Tokyo, Singapore and Hong Kong.

Although there is certainly no shortage of hotels all over Oahu, discriminating travelers have chosen the exclusive Halekulani Hotel in Honolulu for over 84 years. Its fine dining room, La Mer, is considered one of Honolulu's best.

Hawaii's surprisingly colorful history is as close as downtown Honolulu. Make sure you spend a couple of hours visiting the beautifully restored Iolani Palace, home to Hawaii's last king, King Kalakaua. See how the early missionaries lived by visiting the nearby Mission Houses museum. Today much of Hawaii's most valuable land is still owned by descendants of the original missionary families, like the Baldwins, the Campbells and the Cookes. Hawaiians joke that the missionaries "came to do good" and "ended up doing well."

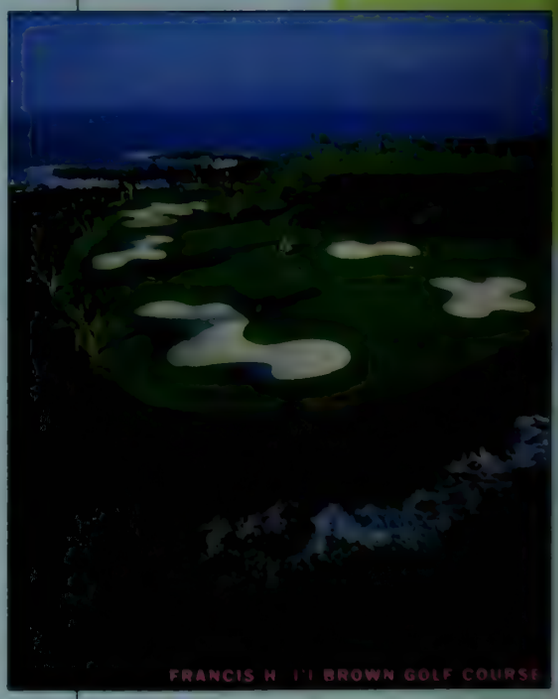
Honolulu boasts one of the country's loveliest downtowns — with its sprawling parks and distinct architectural sites, such as the restored turn-of-the-century buildings on Merchant Street or the glass high rises on Bishop Street, Honolulu's major financial center.

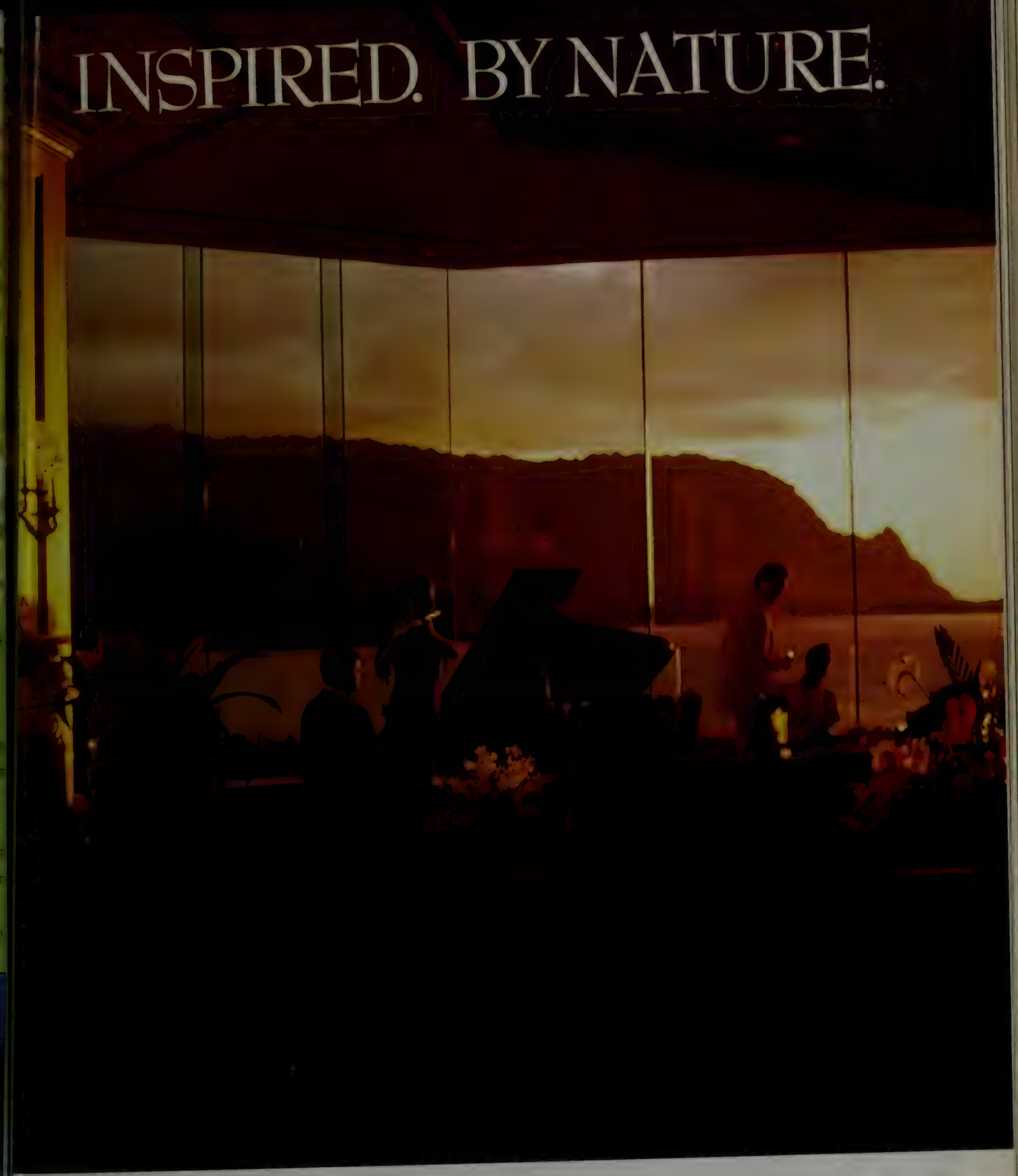
The Territorial Office Building across the street from Iolani Palace is a perfect example of Hawaiian architecture of the early 1900s. Situated together within a few blocks are the old headquarters of Hawaii's "Big Five" companies. The Alexander & Baldwin Building, completed in 1929, has Chinese influence, a traditional Hawaiian roof and tile murals. A Mediterranean style can be seen in C . Brewer and Co.'s headquarters, built in the 1930s. The Aloha Tower, built in 1921, greeted passengers who sailed to the islands aboard the luxurious Matson steamships. The 10-story tower was Honolulu's tallest building for years.

Honolulu also offers visitors three fine museums: the Bishop Museum, the Honolulu Academy of Arts and the Contemporary Museum. Its symphony orchestra and concert hall rival many on the U.S. mainland.

Honolulu is home to one of the country's most accessible Chinatowns. "Chinatown" is actually a misnomer since the area, just west of Bishop Street, is the commercial center for Hawaii's Chinese, Filipino, native Hawaiian, Vietnamese and Thai communities. Chinatown's wide streets are lined with lei shops, noodle factories, open air markets, acupuncture clinics and herbalists.

Few visitors get to the windward side of Oahu, on the north side of the razor-sharp Koolau mountain range. Don't let it slip by. It has one of the state's prettiest and finest swimming beaches. Kailua Beach's pure white sand and aquamarine waters attract people from all over the island, and it's only 20 minutes from downtown Honolulu. A few miles down the road is Makapuu Point, offering one of the state's most dramatic views.





Nature and imagination harmoniously meet at the ultra-luxury Princeville Hotel. With just 252 rooms and suites, inspired service is at the heart of the experience. Watch the sky explode with color at sunset in The Living Room lounge. Golf with nature as your partner. And always there is Bali Hai, beckoning across Hanalei Bay. And if you are reluctant to leave this Eden, stay for the invigorating lifestyle. The Princeville Hotel. In a world of creeping mediocrity sublime excellence.

Princeville Hotel

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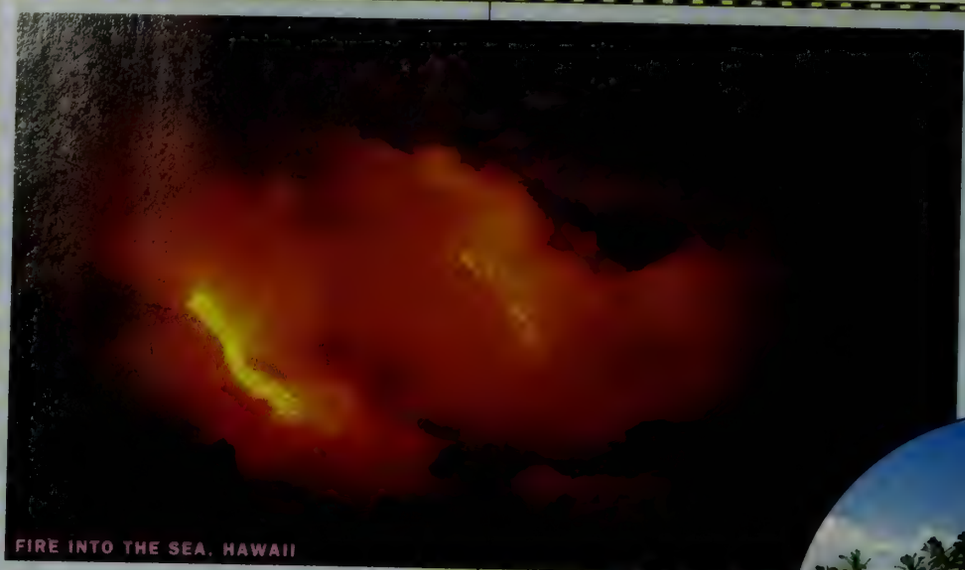


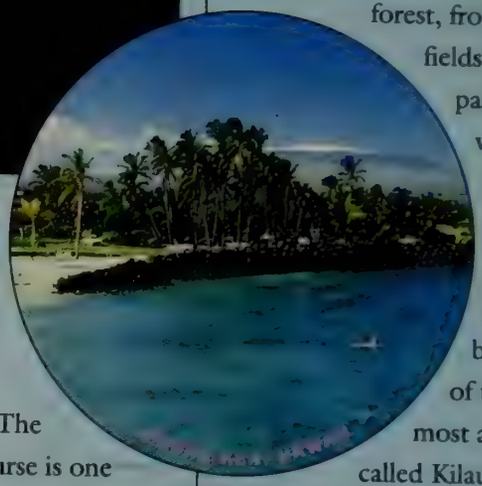
PETER FRENCH/HAWAII VISITORS BUREAU

FIRE INTO THE SEA, HAWAII

FROM COUNTRY INNS TO WORLD-CLASS RESORTS

With more than 72,000 rooms on six islands, Hawaii offers a wide range of accommodations, from intimate bed and breakfasts and rustic country inns to world-class destination resorts like Mauna Lani Resort.

Situated on the Big Island of Hawaii on the spectacular Kohala Coast, the Mauna Lani is one of the world's premier resorts. In less than a decade, it has built a name for itself with the most sophisticated and discriminating travelers — guests who return again and again. The resort's 18-hole golf course is one of the world's most beautiful oceanfront courses. Mauna Lani has been repeatedly voted the best golf resort in America, and last year it hosted the PGA Senior Skins Game.

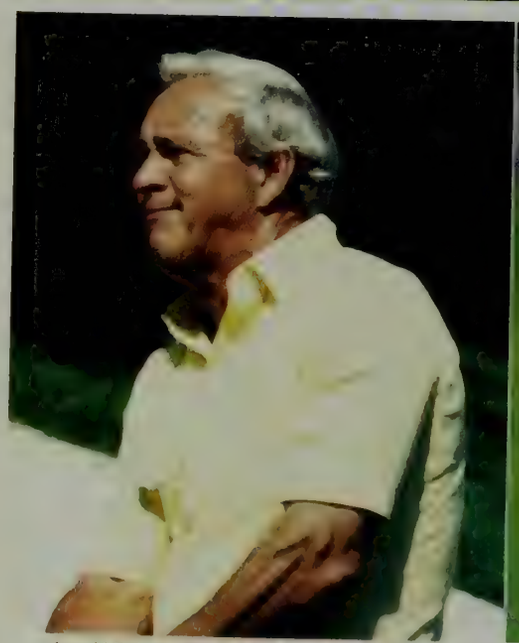


SKIING...IN HAWAII?

If you can manage to pull yourself away from the Kohala Coast, set your sights on the rest of the Big Island. It's about the size of Connecticut, but that's where the similarity ends. Its 4,000-plus square miles provide interesting contrasts both in climate and scenery — from near desert to rain forest, from black lava fields to rolling green pastures dotted with grazing cattle.

For natural beauty, the Big Island is hard to beat. It has one of the world's most active volcanoes, called Kilauea, in Hawaii Volcanoes National Park. The Big Island is also home to 13,796-foot-high Mauna Kea, the world's highest mountain as measured from its base.

The summit of Mauna Kea may



Arnold Palmer, PGA, Highlands Course Designer

Cindy Rarick, LPGA, Waikoloa Tour Professional

Peter Jacobsen, PGA, Waikoloa Tour Professional

How Good Is Waikoloa? Just Ask Your Average Golfer.

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The Beach Course, designed by Robert Trent Jones, Jr., is an Hawaiian classic, surrounded with splashes of black lava and blue ocean.

And coming soon is the new Arnold Palmer Highlands Course, a breathtaking Scottish-style masterpiece.

But, Waikoloa isn't just about incredible, non-stop golf.

There's also a choice of great accommodations, a spectacular beach, wonderful tennis, shopping, dining and dancing, all surrounded by the beauty and history of the Big Island, arguably Hawaii's sunniest, most scenic spot.

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COURTESY OF PRINCEVILLE HOTEL

soon be known as the world's astronomy capital, with six giant telescopes (including the world's largest optical telescope). No wonder scientists from around the world flocked there this summer to observe the solar eclipse. In the winter, expert skiers can schuss down the face of snowcapped Mauna Kea in the morning and relax on the beach or play golf on the Kohala coast in the afternoon.

Below Mauna Kea mountain are the rolling green pastures of the 224,000-acre Parker Ranch. This is the country's largest privately owned cattle ranch, still employing traditional Hawaiian cowboys known as "paniolos."

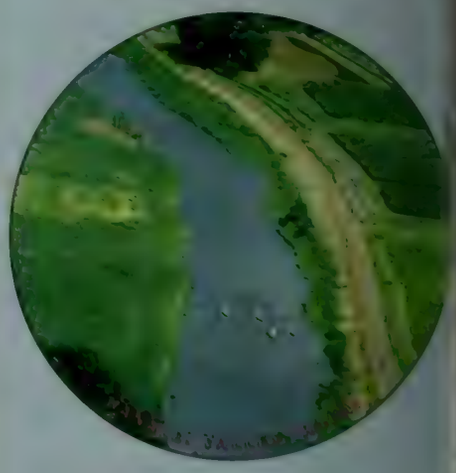
The Big Island has a rich and varied history. To get a glimpse of the "old Hawaii," visit rustic Hilo, on the east coast. Hilo is the Big Island's largest town and offers an intriguing blend of frontier and colonial architecture. In two of its churches you can still hear Hawaiian hymns sung on Sundays.

A visit to Hilo's waterfront is well worth the time. If you get up early enough you can catch the Suisan fish auction. A word of advice: Bring your umbrella to Hilo, since rainfall averages nearly 140 inches a year.

After touring the Big Island, swing back up the northwest coast to the Waikoloa Beach Resort. The peaceful white sand beaches, palm trees and clear blue water of Anaehoomalu Bay provide the perfect backdrop for relaxing and rejuvenating. Stroll around ancient fish ponds built by early Hawaiians. Take in a round of golf on an emerald green course etched in a field of black lava — like the championship Beach Course and the new Kings' Course. The Waikoloa Beach Resort boasts luxury condominiums and two first-class hotels as well.

UNSPOILED LUXURY

Everyone who knows Hawaii has a favorite island. For many it is Kauai, geologically the oldest of the islands and some say the most beautiful. Lush and green, the island is known for its beautiful beaches and breathtaking scenery. Its nickname, "the garden isle," is well deserved. Kauai's north shore, rugged Na Pali coastline and emerald green Hanalei valley draw visitors year after year. The north coast



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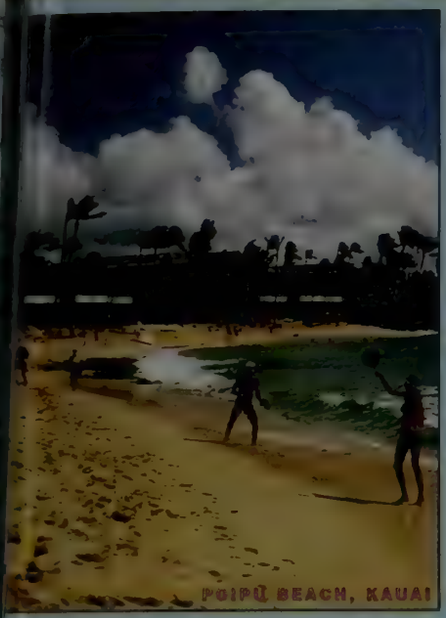

POIPU BEACH, KAUAI

offers some of the best and most challenging hiking in the Islands.

For sheer beauty and spectacular views, the Princeville Resort is unmatched. This 1,500-acre resort is an hour's drive from Kauai's bustling resort center at Poipu Beach. Far from the crowds, Princeville is in a class by itself. The hotel overlooks Hanalei Bay, the sheer sea cliffs and the deep green mountains beyond.

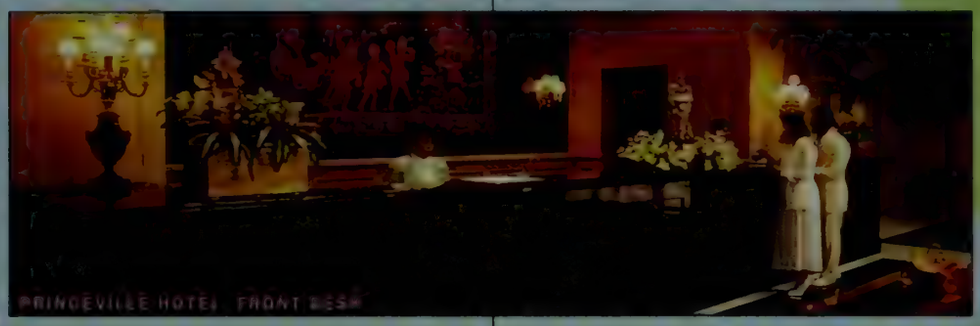
"The setting is what makes Princeville unique," says Burt Tsuchiya, vice president of resort operations at Princeville Corp. "It's difficult to imagine a fully integrated resort the size and quality of Princeville that can match its setting." Princeville has two award-winning golf courses designed by Robert Trent Jones Jr. Many duffers consider the Prince Course one of the most challenging in the country. The resort's luxury hotel, the 252-room Princeville Hotel, recently underwent a $120 million refurbishment. All guests enjoy 24-hour butler service. "We offer the best manmade comforts in an unspoiled natural environment," says the hotel's general manager, Fred Matti.

WAIMEA CANYON, KAUAI

CHUCK O'MAHONY/HAWAII VISITORS BUREAU

TAKING THE BACK ROADS

If your idea of the perfect resort includes gondoliers, luxury shopping and a large variety of restaurants, then the Westin Kauai at Kauai Lagoons may well be your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SEVEN POOLS, MAUI

HAWAII VISITORS BUREAU

version of paradise. This 800-acre fantasy resort offers guests carriage rides through eight miles of winding paths. You can take an outrigger canoe ride around the 50-acre lake. Or, cruise around the resort's six islands and see kangaroos, wallabies and gazelles. The resort also has one of Hawaii's largest swimming pools.

After Oahu, Hawaii's second most visited island is Maui. But few people take the time to see the real Maui. To do that, drive through the country towns of Paia and Makawao. Stop and browse at one of the old Japanese-run general stores, or visit an active sugar mill that dates back to the last century.

After a day spent exploring you'll appreciate the comforts of a fine hotel like the Westin Maui. Relax in one of the five multi-level swimming pools. Take time to enjoy the resort's extensive Asian and Pacific art collection, or just watch the sunset on Kaanapali Beach.

THE OLD HAWAII

One of Hawaii's best-kept secrets is the tiny island of Molokai. This 261-square-mile volcanic divot of rolling green hills, cattle ranches, sea cliffs and waterfalls is overlooked by almost everyone — except Hawaii residents. Only an estimated 100,000 tourists visited last year, which is fine with the kamaainas (longtime Hawaii residents) on nearby Oahu. Molokai is also preferred for what it *doesn't* have — no chain stores, fast-food restaurants, movie theaters, traffic lights or elevators. The island's most popular attraction is the mule ride down to Kalaupapa Settlement on the island's north shore. The ride is spectacular, with stunning views of surf crashing far below the sheer cliffs. For another look at Molokai's past, visit the old plantation town of Maunaloa (population 600) on the island's dry western side.

KALAUPAPA MULE TRAIN, MOLOKAI

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This ad isn't about reincarnation.

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Visit any one of them, and you can forget your troubles, forget your calling card number, and find a few lost parts of yourself.

And that's just the agenda for the first morning.

Later, you can bicycle down the side of a crater. snorkel inside of one.

Hike a lunar landscape, or soar through a canyo

Splash around in a waterfall, or picnic over-

HAWAIIAN ISLANDS

THE FORBIDDEN ISLANDS

There are two Hawaiian islands you *can't* visit. Niihau, the 72-square-mile "Forbidden Island," is privately owned by the Robinson family. No one is allowed there unless invited. Some 250 residents, mostly pure-blooded Hawaiians, live a heavily agricultural lifestyle. There are few modern conveniences: no telephones, no hotels — and no jails.

Kahoolawe is the only uninhabited island of the eight major islands. This barren island has been controlled and used by the U.S. Navy since the early 1950s as a bombing range. Hawaiian activists are pushing for its return to state control.

Hawaii has many beautiful places you can visit, and offers tremendous variety. All it takes is a sense of adventure. "Hawaii isn't what you think it is," says Stanley Hong, president of the Hawaii Visitors Bureau. "The best way to see and enjoy Hawaii is from many different angles. That way you'll experience her subtleties." Whether you visit Hawaii for the first time or the fifth time, there's always something new and exciting to discover in this vacation paradise.

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WESTIN. Resorts

How the Gate *got its* Tail

By Richard Brookhiser

WASPS DON'T PLAY many sports these days, except those—golf, tennis—which use little balls, yet they invented most of the sports we watch. So the traditional rites of sport are still the legacy of haute WASPdom. One of these is the football tailgate.

Tailgates—a parking-lot picnic shared by a party of football fans before the kickoff—began as a practical necessity. In 1904, the spectators of the 25th Harvard-Yale football game arrived in six special trains, consisting of 54 private cars. The Vice President-elect of the United States, Charles W. Fairbanks, was there, rooting for Yale. So was the President's daughter, Alice Lee Roosevelt, rooting for Harvard. The *New York Times* reported that "refinement, culture and an easy disposition were written" on the faces of the crowd.

When these refined, cultured and easily-disposed spectators got hungry, what could they do? Have the staff lay something out, obviously. But where? (Their private railway cars were parked back at the train station.) Hence over time the tailgate, which makes use of a slightly more accessible surface space, evolved.

What do WASPs eat off their tailgates—and their hoods and their roofs, if the spread is ample? Tailgate food, like picnic food, covers a wide range, from fried chicken picked up at the drive-in take-out, to nibblies from the gourmet deli. Serving pieces and other props can vary in quality too, from paper plates to napery. Keep in mind that the standards of status display have changed since the Gilded Age, and what looked good at the 1904 Harvard-Yale game might seem a tad vulgar today. The general rule of thumb is that the bigger the item, the plainer it should be. Leave the Rolls at home, unless you want to look hopelessly nouveau, but by all means bring a silver pocket flask. Given the quality of Ivy League football, a flask can offer much-needed consolation once the game begins.

But the essential quality of the tailgate, for WASPs and WASP wannabes—the moral factor—is that it requires exposure to the elements during a season when the elements are not celebrated for kindness to those who expose themselves. There are, to be sure, autumn days when Nature beguiles. But there are also the other days, when the clouds are the color of doormats, and the wind reminds you how many shopping days there are until Christmas. When the tailgater gets that kind of weather, he buttons up his windbreaker and deals with it as best he can.

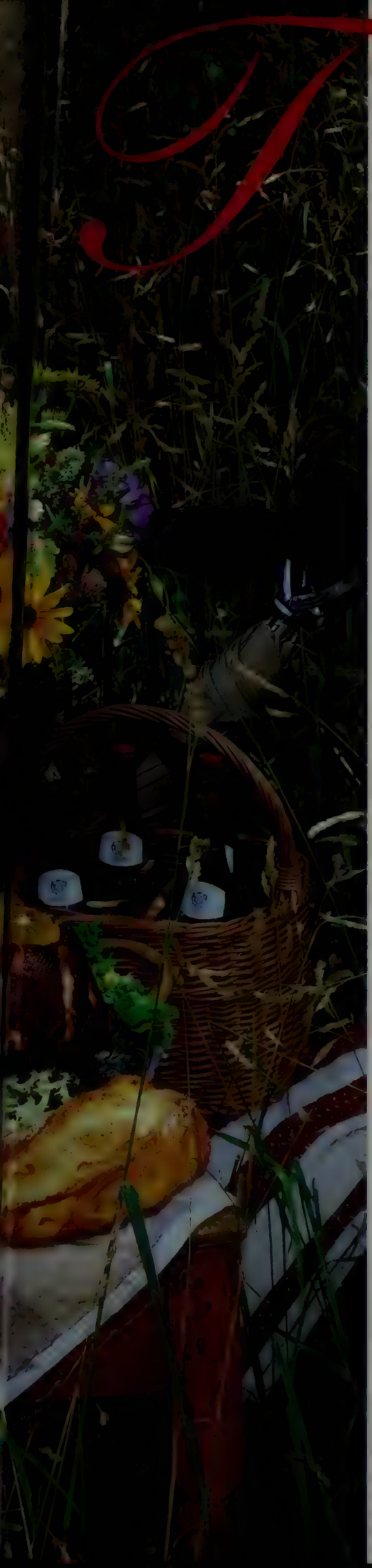
In so doing, he is partaking, in a small way, of the ethos of the game, whose purpose used to be to build character. The climactic game in Owen Johnson's *Stover At Yale*, after all, was a shutout of Yale—and this is what the hero heard in the locker room afterwards. "A great Princeton team licked you—licked you well! That's all. You deserved to score. You didn't. Hard luck . . . One thing I want you to remember when you go out of here. *Yale teams take their medicine!*"

And Yale fans take their pre-game meals in the open air. We don't play football very well anymore; at least we can have the satisfaction of scoring a few small points in the game of life. Let the rest of America set up Cheetos and six-packs by the Barc-a-Lounger and glue itself to TV bowl games on New Year's Day. We'll stick to our traditions, and our tailgates.

Richard Brookhiser is the author of *The Way Of The Wasp*, published by the Free Press.

For an updated version of this time-honored victual ritual, turn the page.

Photograph by Douglas Rosa
Produced and styled by Mark Grischk
Food styling by Sandra Robishaw



TAILGREATING

Every time a Big Game comes around, there's always a lot of chatter about "the point spread." Leave the arcana of gambling to the gamblers, we say. The spread we have in mind concerns a savory autumn afternoon, a cornucopia of good things to eat and drink, and the perfect implements and accessories with which to serve them. Funny, isn't it, how everything tastes better outside?

Jeep Cherokee Limited, with 4-wheel drive, power windows, leather interior, cassette player and AM/FM 6-speaker stereo, all standard. $24,876 plus tax and destination charges. All food by Balducci's. *On table*: whole maple-cured 12-pound ham glazed with oranges, $70, smoked chicken breast, $9.99/lb., peppers stuffed with provolone and prosciutto, $25 per 24, red chile peppers, $6.99/lb, bocconcini mozzarella "knots," $10.50/1½ lbs, semolina crescent, $1.95 each, crudite in wicker basket, $50, and mixed fruit tart, $15. *On Jeep*: focaccia sandwiches, $6 each, and roasted pepper bread, $5.25 each. Available either by mail order at 800-822-1444 (800-247-2450 in N.Y.), or through Balducci's Catering, 212-673-2600. Flowers by Paul Bott at Twigs, N.Y. 212-620-8188. Willow picnic basket with cutlery, stoneware, wineglasses, linen tablecloth and cutting board, $2,900; and Steeplechase umbrella, $250, by Ghurka. 800-243-4368. Antique Mexican table, $825, reproduction fan-back chair, $650, and cotton throw used as tablecloth, $50, all at ABC Carpet & Home, N.Y. 212-473-3000.

Jadot Beaujolais Villages 1990, imported by Kobrand Corporation. $12.

Wicker bottle basket by Gardener's Eden. $21.50. 415-421-4242.

Antique "Nine Patch" quilt, $895, from Thos. K. Woodard Antiques, N.Y. 212-988-2906.

Handmade porcelain platter by Jeff Cox. $90. At the Museum Shop of the American Craft Museum. 212-956-3535.

Travel clock by Cartier. $550. At Cartier boutiques nationwide.

Champagne flutes, $14 each, crystal Champagne bucket, $55, and sterling silver picture frame by Tiffany & Co. $2,500. All at Tiffany & Co. locations.

Taittinger Comtes de Champagne Blanc de Blancs 1985, imported by Kobrand Corporation. $97. Mahogany 2-person drinks cabinet, $2,635; sterling silver cocktail shaker, $1,200; also, Drummond of Perth wool blanket, $130. At Asprey, N.Y. 212-688-1811.

Handmade cut crystal pint jug by Waterford. $155. 800-677-7860. Briarwood backgammon set, $455, and travel playing card set in leather case, $195, by Mark Cross. At Mark Cross stores nationwide.

"Provence" 12" earthenware platter, part of the Berkshire Collection for Wedgwood USA. $72. 800-677-7860.

Macanudo Baron De Rothschild Cafe cigars, $42 the box of 25. At fine tobacco shops nationwide. NFL football by Wilson Sporting Goods Co. $79. StayFocus Plus 7x35 binoculars by Nikon. $150.

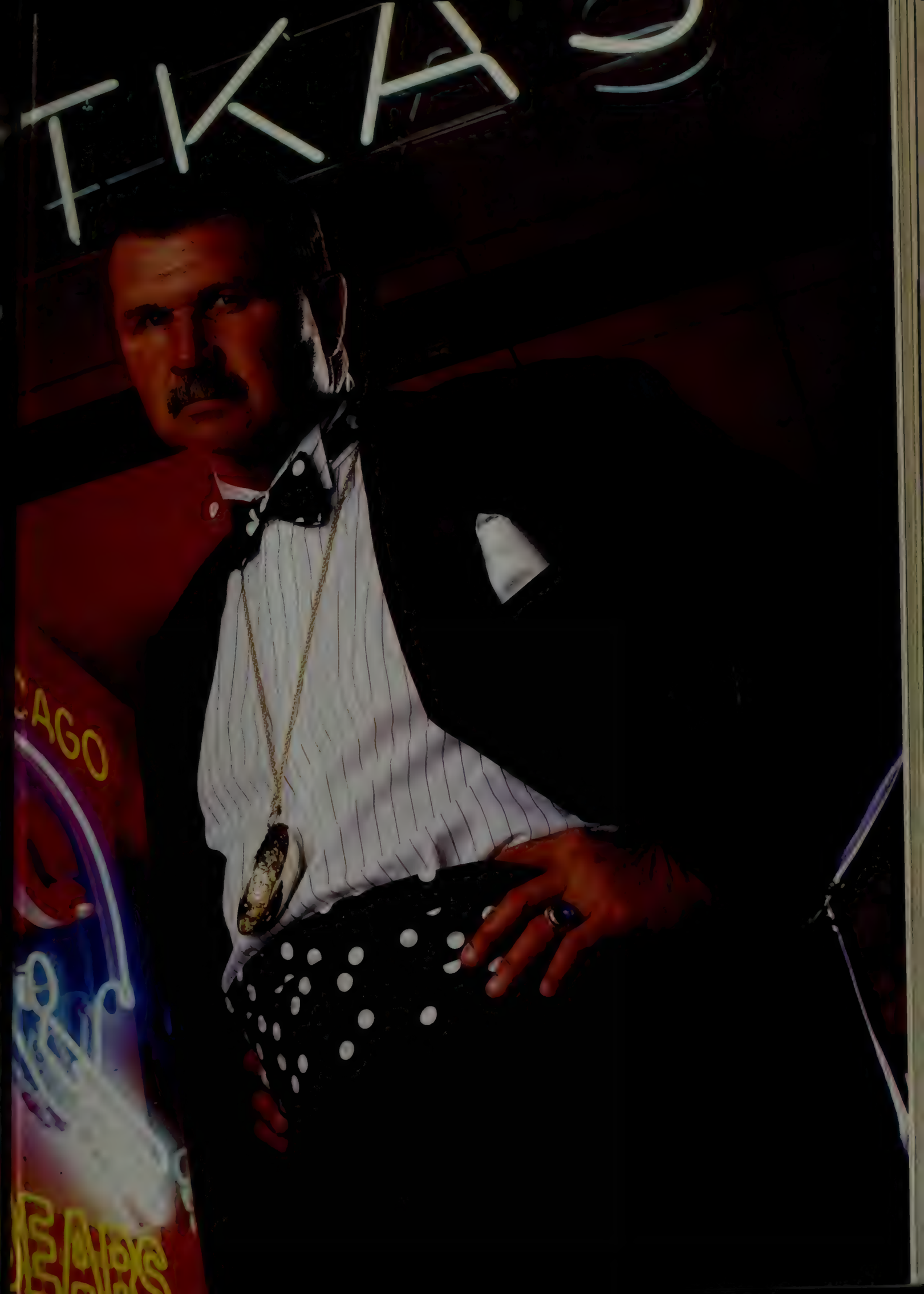
Monsieur MIKE *Vous Propose...*

He has a reputation for drinking gasoline and spitting fire, but only during games and two-a-days. Off duty, Iron Mike Ditka has a weakness for fine wine.

Mike Ditka, presiding at the head table of his restaurant on Ontario Street in Chicago. Joining him for dinner, a Catholic priest, the CEO of a major national retailer, the president of a communications company, along with a few others who come by for a drink and a few words from the coach, then leave.

By Geoffrey Norman

Photograph by Alice Q. Hargrave


TKA
AGO

Ditka holds forth on a number of topics, chiefly the excellence of the food and the absurdity of a recent NCAA ruling. The priest offers calamari to the man in communications, who refuses, pleading a concern for his weight.

"Richard," the priest says, in the old avuncular way, "I've buried a lot of skinny people in my time. Try the calamari, it's wonderful."

Four women enter, studying the room with the kind of breathless fascination that gives them away as tourists. One of them spots Ditka.

"Oh my God, I can't believe it. He's here."

After he has signed autographs for the women, Ditka asks, "Where are you ladies from?"

"New Orleans."

"Great town. I've got nothing but good memories of New Orleans." On his last visit, Ditka's football team won the Super Bowl. A coach would remember Beirut fondly if he'd won the big one there.

"What's good to eat?" one of the women says, flirting a little.

"All of it," Ditka says with a certain emphasis. "Everything on the menu is good."

"What about the wine?"

"Ah," Ditka says, and the blunt, furious face, known to every fan, and feared by all his players (they call him "Sybil" for his many moods—all of them bad), and for sure by all sports reporters (who call him something else behind his back), warms and softens. He smiles. "Would you ladies like me to recommend a wine? A nice, crisp, dry white wine?"

"Would you?"

"I'd be delighted."

"*I'd be delighted*?" To order a nice, crisp, dry white wine for the ladies? What is this? Iron Mike, the toughest tight end ever to lay out a linebacker with a forearm shiver? The Chief Chicago Bear? The Bear's Bear? A man who not only played hurt—and made sure others had to—but was back on the sidelines coaching two weeks after a heart attack. *That* Mike Ditka, ordering a nice, crisp, dry white wine for the ladies? Could it be that beneath the most famous hard-nose in America, there lurks a soft palate?

Well, yes. Mike Ditka is a serious student of wine. Are *you* going to call him a wimp, now that you know?

"I'm certainly not what you would call a connoisseur," Ditka says, in a way that makes you wonder if he might kick your butt if *you* called him that. "I'm just a guy wh enjoys wine. Studying it, drinking it, giving it to friend when I find a good one. It's something I'm interestec in."

Enough to subscribe to *The Wine Spectator*, which h studies, along with the scouting reports and game films in his office at the Bears' complex in Lake Forest, a shad suburb far north of the City Of Broad Shoulders.

"I'm looking for bargains," he says. "I just built a new house, with a wine cellar. A small one, for 100 cases. I'm still stocking it. Right now, I've got about 50 cases."

How, one asks, did he get started on wine, trying not to sound as if the question is "Where, exactly, did you go wrong?"

"Well, I never had any wine to drink when I was growing up, in a blue-collar neighborhood in Pittsburgh. Unless it was a communion wine, or a sip of something a neighbor made in the basement."

But then, late in his professional career when he was with the Cowboys, Ditka got into the restaurant business in Dallas. The place was called the "Hungry Hunter," and it specialized in game. "Venison, quail, wild boar. Everything was dark wood with mounted heads on the wall."

The restaurant failed, but through his interest in it, Ditka had been exposed to the world of wine. The complexity of that world—the specialized vocabulary and the variations on variations—was not especially daunting to Ditka, who had retired as a player and was now an assistant coach at Dallas. Tom Landry, the head coach, was a fiend for complexity, with a playbook full of variations on variations of the same theme. Wine didn't scare Ditka. But, then, very little does scare Ditka.

"I learned from my restaurant, from my brother-in-law who had a wholesale wine business in Dallas, and from some of the other Dallas coaches. We liked to go out at night, after practice, and eat dinner and try a new wine."

One hears this and tries to imagine wine talk among football coaches whose descriptions of players are . . . well, *colorful*: "Guy is eaten up with want-to," or, "The corner has flat got some swifts," or, "My linebacker there is stronger than garlic."

Did they say things like, "This merlot here might look like Tarzan, but it drinks like Jane."

Or, "Try a little of this Chablis. I believe its fruitiness will ring your bell."

Or, "You got to try this Pommard. A big wine. I mean,

Could it be that *beneath the most famous* *hard-nose*

really *big*. It'll put a hat on you."

"Nah," Ditka says. "We just drank it and talked like anybody does when you're talking about wine. We tried not to sound too phony about it but, you know, with a lot of that wine talk, it's hard not to."

Indeed, it is hard to imagine Iron Mike describing anything as "well-rounded" except, perhaps, William Perry, "The Refrigerator."

Among the other diners at those post-practice meals and *ad hoc* wine tastings was Dallas assistant coach Dan Reeves, who has been head coach of the Denver Broncos for ten years and is one of several wine enthusiasts among NFL head coaches. Another was Chuck Noll, of Pittsburgh, another hard-nose and the only head coach to win four Super Bowls.

"I'd say Chuck knows as much about wine as anyone in the game," Ditka says.

"I learn a lot from these other coaches, like Reeves. We had dinner recently in Hawaii. We were out there for the Pro Bowl, and he ordered the wine. It was a very good chardonnay. Full, you know, but clean. I bought a case for my wine cellar when I got back home.

"And then, few weeks ago, my wife and I had dinner with John Mackovic and his wife. John and I were on the staff together at Dallas. I came here, and he went to Kansas City and then the University of Illinois, just down the road. Our wives are real close. Anyway, I ordered a cabernet that I thought was pretty good, and John said, 'I want you to try something.' He ordered a merlot and it was great. Softer than the cabernet and not so much tannin. Since then, I've pretty much switched over. I learn a lot like that, from other people."

And, when you are Mike Ditka—perhaps the most ubiquitous figure in football this side of Bo Jackson—you meet a lot of people. "I'll tell you how I found out about a great vineyard. I was playing golf in Bob Hope's tournament. My partner was a doctor, and while we were talking between shots, he tells me that he's just bought a vineyard. I start asking him a lot of questions, and he sees I'm interested. So when I get home, he sends me a few bottles. It's very good wine: Frog's Leap is the name of the vineyard. They put out an excellent chardonnay. I also like the zinfandel a lot."

Does he tour the wine country?

"Never have. I'd like to someday, when I'm in California."

How about France?

Ditka shrugs. "I'm mainly interested in American wine." Well, he *is* about as American as it is possible to be.

"Don't get me wrong," he adds quickly. "I've had the occasional Margaux or Latour, like you have to if you're interested in wine. And they were wonderful. But if I'm at a restaurant and I'm ordering, I just feel more comfortable with something American. You know what I mean?"

erica, there lurks a soft palate?

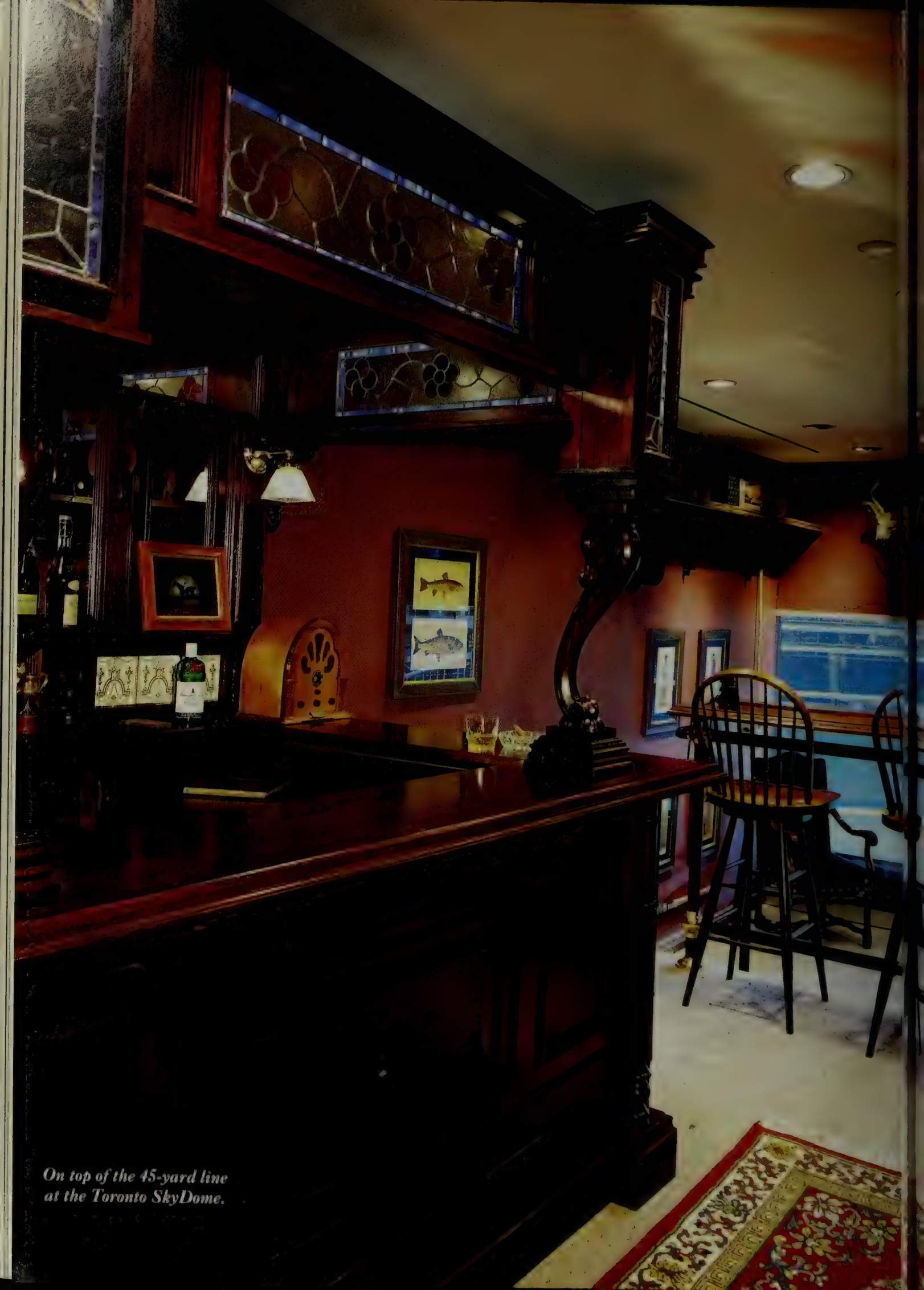
'59, '61, '70, Hike!
A portrait of the oenophile as a young man.

Absolutely, Coach.

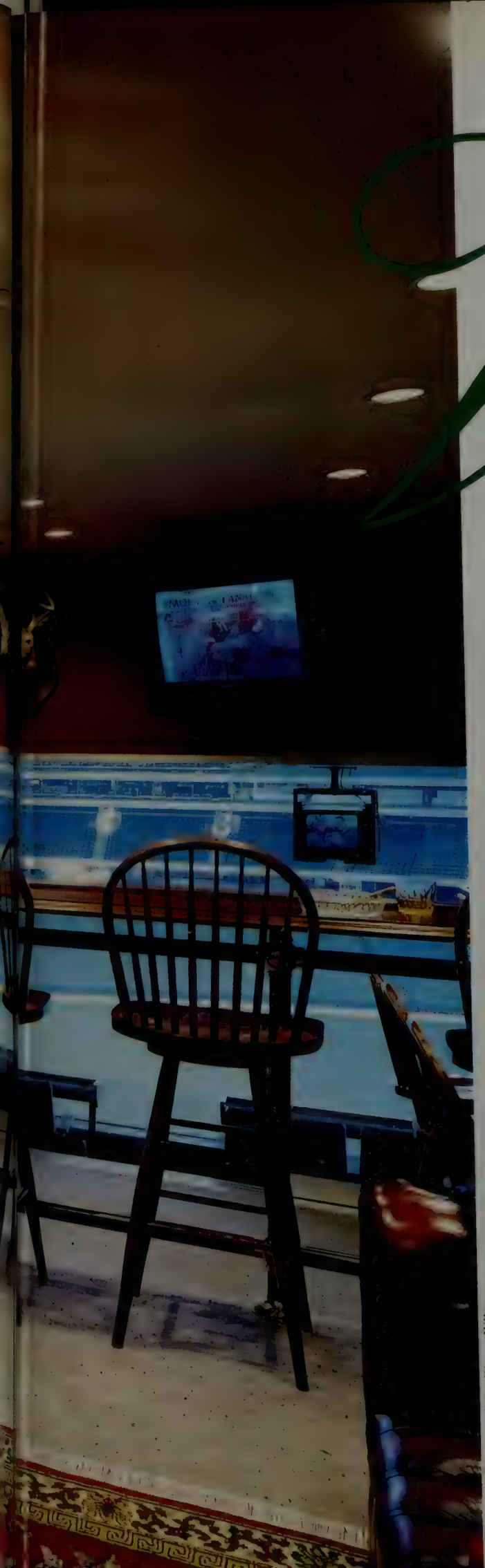
In his own restaurant, Ditka drinks Champagne before the food arrives. "Korbel Natural because I like a very dry Champagne, and I think it is the absolute best at the price. I'm not going to tell you it is as good as Dom Pérignon. When we win the Super Bowl again, maybe I'll drink some Dom. Or the Perrier Jouet. I like that, too. But for the price, I don't think you can beat the Korbel."

And then, for dinner, he orders a merlot and a pinot grigio, which is what he sends over to the women from New Orleans. It is not American. But then, it is his restaurant, and he is Mike Ditka. He calls the plays and, on this evening, his play-calling is excellent ■

GEOFFREY NORMAN *is the author of the novel,* Sweetwater Ranch, *recently published by Atlantic Monthly Press.*



On top of the 45-yard line at the Toronto SkyDome.



Photograph by Elaine Kilburn

Wombs with a View

Before you plunk down a wad for season tickets, consider leasing a skybox. They ain't cheap, but they could be deductible.

By Peter Scott and Duncan Christy

No two baseball games are ever the same, it's said, and one which took place at the Toronto SkyDome last year certainly proves it. As titillated patrons in the upper levels watched, a scantily clad couple was first observed through the window of a hotel room just above the left-field scoreboard. Although the lights in the room were off, deluding the pair with a notion of privacy, the glittering lights from the diamond illuminated their activities very clearly. And at the "400" level, where the SkyDome's exclusive skyboxes are located, the view was crystal clear indeed.

"Oh yes," recalls Darren Farwell, a

skybox patron, with a laugh. "First they were wearing towels. Then one towel fell, then the other, and soon they were in bed, where they made love. You could see everything."

Owner Darren Farwell in Toronto.

Skyboxes don't routinely promise this type of entertainment, which caused an uproar in Toronto and inspired the "You Said It" column of *The Toronto Sun* to ask: "Do you think people should be allowed to have sex in SkyDome hotel rooms in view of the audience?" But what they do promise has become an increasingly appealing formula for well-to-do sports fans and sharp business strategists. Skyboxes today are a comfortable, even lavish, private spot from which to view the game, or to work the client—or both.

"It's a wonderful place for business as well as family," says Daniel Cronin, the president of WLS Stamping in Cleveland, of his skybox at Cleveland Municipal Stadium. "We're a small manufacturing company, and a box like this makes a good impression on our clients and guests. It's a change of pace for business, and especially during baseball games, it's a great place to talk."

The embryo of the skybox concept was the stadium loge, a simple tier or two of covered seats with a room behind where one could pour the Bloody Marys in comparative privacy. Trust a Texan, though, to see these exclusive spaces writ large. The first real "skybox" was Judge Roy Hofheinz's celebrated live-in suite in the Houston Astrodome. Built when the stadium was constructed in the early 1960s, it featured its own bowling alley and even a chapel—where Judge Hofheinz could appeal, if he wished, for some improvement in the fortunes of his hapless home team.

Then came Lamar Hunt's skybox in Arrowhead Stadium in Kansas City. Hunt, youngest of the former billionaire Hunt brothers of Texas, and the owner of the Kansas City Chiefs, uses a box whose designer went all out: two floors, four bedrooms, a game room with antique games, a living room with fireplace and Spanish decor, and seating for 57.

The potential was clear, and so was the momentum. Since then, skyboxes, or "suites" as they are frequently called, have become an integral part of stadium design. As *The Wall Street Journal* reported earlier this year, "The suite is the engine driving the building and operation of the new arenas," as a predictable source of revenue for stadium management. There is even a *Skybox* magazine which charts the development of skyboxes across North America in the 300 or so stadiums which possess them.

There's no typical skybox today; they vary widely in price, and as widely in the amenities and the access they provide. For example, with some skyboxes you can decorate and redecorate to no-holds-barred opulence, if you desire; with others, the design is deliberately uniform and practical. Some offer one private parking space, some offer several, some offer none. With some skybox arrangements, you can attend every ticketed event at the stadium or arena; with others, you're limited by sport.

The only real generalization to be made about skyboxes is that virtually all are leased, rather than bought. George Hricik, the senior vice president of Bowne of Houston, the financial printers, frequently enjoys the luxury suite his firm rents at the Astrodome for the entire baseball season at a cost of $25,000. The three-year lease includes 18 tickets to each game for the maximum 18-person seating capacity. Catering is provided by the Astrodome, which also dictates the decor; and there are five preferred parking spaces.

"Cost/benefit?" says Hricik. "Good heavens, yes. My clients are particularly impressed by the proximity to the press box, and our place over home plate. It's like having a private party at home in your living room. You can watch

They do everything ... bigger in Texas.

the game, or you can talk business, or both.

"My wife and I usually stand, or sit in the back and entertain guests. The wives and people who aren't necessarily interested in the game can sit up on the second level

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What, no pretzels? ***A skybox in the New Orleans Superdome.***

and talk. Most of the rest are in the seats or on the third level at the buffet and bar"—where, presumably, the good will of Bowne of Houston is rubbing off on them.

Madison Square Garden, home to the New York Knicks basketball team and the New York Rangers hockey team, and the site of scores of concerts and other expositions during the year, isn't a stadium but an urban arena. Its management is just completing an extensive $200 million overhaul, which, among other improvements, is providing 88 luxury suites. There, for three-year lease prices ranging from $140,000 to $190,000 a year, individuals, corporations and other entities can have access to Garden-decorated suites averaging 400 square feet, about the size of a good-sized but hardly vast living room.

"But one of the most advantageous things about the Garden versus other arenas," says spokesperson Monie Begley, "is the number of events. You get 12 tickets, and can purchase four additional tickets, to everything that is for ticketed sale." Which means that, if you're a Knicks fan, if your wife has always wanted to attend the International Cat Show, and if your kids would kill to see Michael Jackson, you're all in luck—if you or your company has one of those 88 suites, and you're on the preferred list.

By the Garden's reckoning, the average cost per seat of a skybox is $53 per event. Skybox privileges entitle its ticketholders to use the private restaurant, sports bar and club lounge, and all catering is provided at additional charge by the club services staff. They'll also handle merchandise, says Begley: "If you want to have a Knicks or Rangers jacket waiting for a client when you come in, they can do that, too."

Buying rather than leasing a skybox is by no means unknown, and, according to Bruce Hardy, marketing vice president of Texas Stadium Corp., can even be a solid investment opportunity. Hardy cites the owner who purchased a skybox in 1971 for $50,000 to watch the Dallas Cowboys play and sold it in the mid-1980s for $1 million. Today skyboxes in Texas Stadium sell for anywhere from $250,000 to $1.25 million, and vary in size, number of available tickets and amenities.

Hardy also stresses that skybox owners are treated like partners, not customers. "You own a suite," he says, "and you come out when there's not a game on. You want to do business, and impress your guests. You give me a call, and I'll arrange a visit to the field, to the locker room, set up a luncheon, pretty much anything you need."

At the infamous SkyDome in Toronto, with its fully retractable roof, two enterprising Canadians have found a way to make the economics of a skybox work for them. Darren Farwell, a stockbroker with Scotia McLeod, and Gerry Lowe, a plant manager with Francon, are sports fans who formed a friendly partnership in 1990 and invested

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The hanging-out judge: skybox pioneer Roy Hofheinz in his famous live-in suite at the Houston Astrodome.

jointly in the lease of a skybox. Sitting over the Blue Jays' first-base line, and the 45-yard line of the Toronto Argonauts football team, their skybox has a ten-year lease arrangement which costs them $150,000 a year. They also pay $27,200 for baseball tickets, and a national tax in excess of $10,000 a year. (They also spent around $80,000 to decorate the space, opting to give it an English sporting club decor that they felt would be handsome but not imposing.)

In turn, they've rented their 20-seat skybox to two major corporations. Their clients have priority for all special events, but Farwell and Lowe reserve the box for themselves for half-a-dozen games or more during the regular baseball season, and in the event of a baseball playoff—Toronto has won the American League East twice in the last six years—and the World Series.

The sub-leasing arrangement, they say, not only gives them the occasional use of a premier skybox—where they can entertain at will when the teams are not playing—but also makes them a profit. (They won't specify how much, for fear of jeopardizing the terms.)

What's in it for their clients? Access to a skybox (and a minimum of 16 tickets per event), to private parking passes, to catering services and to a bartending hostess, with none of the headaches of maintenance nor the higher cost of a sole lessorship. Grant McDiarmaid, the marketing manager of Fiberglas Canada, particularly likes the decor. "It's decorated with some wit," he says.

"Anyone can hand out tickets to a game," he says, "but this box provides something more. We're known for the unexpected, the lively, and this box suits us perfectly for that reason."

As if they weren't comfortable enough, skybox rentals can also be deductible as a business expense. The deduction for each skybox seat is limited to 80% of the cost of regular box seats (which can, of course, be the most expensive regular seat in the house). Needless to say, the IRS doesn't presume you're using your skybox for business purposes, so be prepared to back up your claims.

To any stadium-goer who has ever frozen or sweltered, gotten soaked or sunburned, cheering on the home team, skyboxes certainly represent the top in luxury. Their surging popularity even suggests that the old stadium anthem needs some retooling: the days when buying a guest "some peanuts and Cracker Jack" were enough to stop us from caring "if I ever get back" are clearly slipping into history.

PETER SCOTT *is a writer and novelist living in Shaker Heights, Ohio;* DUNCAN CHRISTY *works for* Forbes FYI.

BOX HUNT

Here are some skybox prices, and whom to call for more information.

TEXAS STADIUM, DALLAS. *Purchase price:* $250,000-$1,250,000. *Per annum lease:* $30,000-$125,000. George Hays (214-556-9396).

ASTRODOME, HOUSTON. *Per season:* baseball, $25,000. Lottie Laughery (713-799-9607). *F*ootball, $15,000-$45,000. Ralph Stolarski (713-797-9111).

ARROWHEAD STADIUM, KANSAS CITY. *Per season:* $14,000-$42,000. Ken Blume (816-922-4402).

SUPERDOME, NEW ORLEANS. *Per annum lease:* $18,500-$43,500. Billy Ferrante (504-733-0255).

MADISON SQUARE GARDEN, NEW YORK. *Per annum lease:* $140,000-$190,000. Judson Perkins (212-465-6200).

JACK MURPHY STADIUM, SAN DIEGO. *Per season:* $29,000-$49,000. Jodean Betscher (619-280-2111).

CANDLESTICK PARK, SAN FRANCISCO. *Per season:* baseball, $24,000-$60,000. Alain Lillie (415-330-2528). Football, $40,000-$80,000. Murlan Fowell (415-467-8400).

SKYDOME, TORONTO. *Per annum lease:* $120,000-$250,000. Margaret Marshall, (416-341-3008).

A subscription to *Skybox* magazine is $19.95 per year from *Skybox* Subscriptions, 1328 Elam Avenue, Cincinnati, OH 45225. (513-541-0269)

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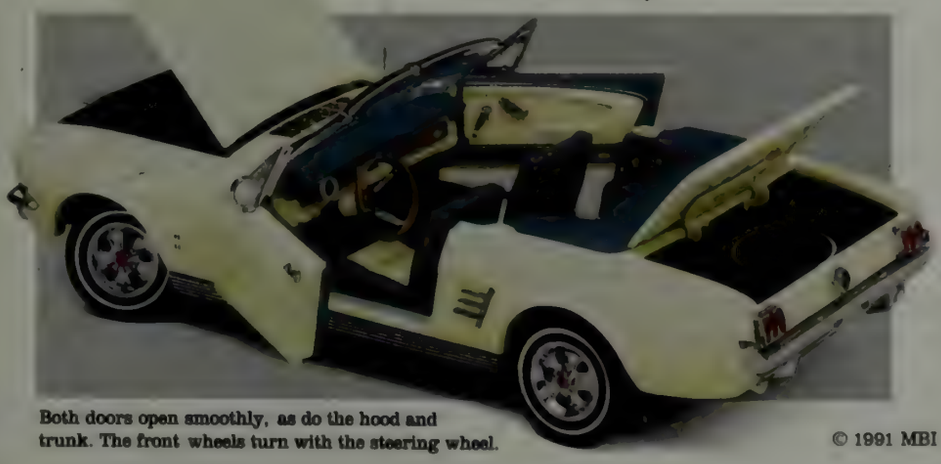

Both doors open smoothly, as do the hood and trunk. The front wheels turn with the steering wheel.

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BY PETER SCOTT

I'M 45 YEARS OLD—already more than half-way down the road to Glory. I've been a cowhand, a lobsterman, a logger and a gas station attendant. I've been to college and to two graduate schools. I'm Ranger qualified. I've commanded a company of airborne infantry; I led a band of ex-communist mercenaries on raids and ambushes in Vietnam. I've been divorced. I've taught in prep schools for 15 years. I've been happily remarried and helped raise three fine kids. I've been in jail twice and made a public fool of myself on seven separate occasions. I helped excavate the City of David in Jerusalem. I own two houses; my truck has four-wheel drive. And I ain't done yet.

But I don't offer advice. No, sir. Not aloud at least, not out in the open. I don't want to see the rolling eyes, or hear the knowing sigh of youth. I write letters and in them camouflage my words of wisdom. That way my unwary reader gets lost in my letter, and then I can ambush him with my advice. I learned this trick from the old masters.

Like William Faulkner. Asked by President Eisenhower what we Americans might do to give a true picture of America to people of other nations, Faulkner suggested the following. Maybe this is a case of advice camouflaging commentary.

New York
late Sept. 1956

Ask the government to establish a fund. Choose 10,000 people between 18 and 30, preferably Communists. Bring them to this country and let them see America as it is. Let them buy an automobile on the installment plan, if that's what they want. Find them jobs in labor as we run our labor unions. Let them enjoy the right to say whatever they wish about anyone they wish, to go to the corner drug store for ice cream and all the other privileges of this country which we take for granted. At the end of the year they must go home. Any installment plan automobiles or gadgets which they have undertaken would be impounded. They can have them again if and when they return or their equity in them will go as a down payment on a new model. This is to be done each year at the rate of 10,000 people.

—Wm. Faulkner

Few Americans have heard of Tom Brown, an English wit and writer of ditties. Popular in 17th-century London, it's said that his satirical verse was "more remarkable for coarseness than wit." Here he holds his tongue in his cheek on a topic that is still hot today.

Madam,
Though the ill-natured world censures you for smoking, yet, I would advise you, madam, not to part with so innocent a diversion. In the first place, it is healthful; and, as Galen rightly observes, it is a sovereign remedy for the toothache, the constant persecutor of old ladies. Secondly, tobacco, though it be a heathenish weed, is a great help to Christian meditations; which is the reason, I suppose, which recommends it to your parsons, the generality of whom can no more write a sermon without a pipe in their mouths, than a concordance in their hands; besides, every pipe you break may serve to put you in mind of mortality, and show you upon what slender accidents man's life depends. I knew a dissenting minister who, on fast days, used to mortify upon a rump of beef, because it put him, as he said, in mind that all flesh was grass; but I am sure, much more is to be learnt from tobacco. It may instruct you that riches, beauty, and all the glories of the world, vanish like a vapour. Thirdly, it is a pretty plaything. Fourthly, and lastly, it is fashonable, at least 'tis in a fair way of becoming so. Cold tea [brandy], *you know, has been a long while in reputation in court, and the gill as naturally ushers in the pipe, as the sword-bearer walks before the lord mayor.*

On his deathbed, Barnum wrote his last letter to his partner, Bailey. Did

iley know the old showman well ough to know whether he was giv- g a true account of himself here, or rhaps smiling impishly over his n?

idgeport, 2 April 1891

y Dear Bailey,

. I fully believe that if you faithfully llow my methods you cannot fail.

has been my universal plan, as you well now, to make the public aware of what I as about to offer it, to get the best of erything and the most of it, and then to dvertise freely and without fear. Never ttempt to catch a whale with a minnow...

ut it is of no advantage to advertise nless you intend to honestly fulfill the romises made in this manner. You ust—I repeat it, must—*have always a reat and progressive show and also one hich is clean, pure, moral, and instruc- ive. Never cater to the baser instincts of umanity, strive as I have always done to levate the moral tone of amusements, and lways remember that the children have ver been our best patrons. I would rather hear the pleased laugh of a child over some feature of my exhibition than receive as I did the flattering compliments of the Prince of Wales. I am prouder of my title "The Children's Friend" than if I were to be called "The King of the World" . . .*

Fraternally yours.

—P.T. Barnum

Always marvelously sententious, the Earl of Chesterfield offered his own advice on giving advice in a letter to his friend A.C. Stanhope:

12 Oct. 1765

In matters of religion and matrimony I never give any advice; because I will not have anybody's torments in this world or the next laid to my charge.

Conventional wisdom accounted Ben Franklin a pious man, if not a prude. He seems otherwise in the following letter to an unknown young friend who had written to "the all-embracing Dr. Franklin" for advice on matters of the heart. In his reply of June 25, 1745, Franklin recommends marriage, then offers the following. Read at your own peril; keep your eye on the lurking paradox. Is he serious?

. . . But if you will not take this Counsel, and persist in thinking a Commerce with the Sex is inevitable, then I repeat my former Advice that in your Amours you should prefer old Women to young ones. *This you call a Paradox, and demand my reasons. They are these:*

. . . Because when Women cease to be handsome, they study to be good. To maintain their Influence over Man, they supply the Diminution of Beauty by an Augmentation of Utility. They learn to do a thousand Services, small and great, and are the most tender and useful of all Friends when you are sick.

. . . Because there is no hazard of children, which irregularly produced may be attended with much inconvenience.

. . . Because through more Experience they are more prudent and discreet in conducting an Intrigue to prevent Suspicion. The Commerce with them is therefore safer with regard to your reputation . . .

Because in every Animal that walks upright, the Deficiency of the Fluids that fill the Muscles appears first in the highest Part. The Face first grows lank and wrinkled; then the Neck; then the Breast and Arms; the lower parts continuing to the last as plump as ever; so that . . . it is impossible of two Women to know an old from young one. And as in the Dark all Cats are grey, the Pleasure of Corporal Enjoyment with an old Woman is at least equal and frequently superior; every Knack being by Practice capable by improvement.

Because the sin is less. The Debauching of a Virgin may be her Ruin, and make her for Life unhappy.

Because the Compunction is less. The having made a young Girl miserable *may give you frequent bitter Reflections; none of which can attend making an old Woman* happy.

. . . & lastly. They are so grateful!!!! Your Affectionate Friend,

—Benj. Franklin

PETER SCOTT *is a writer living in Shaker Heights, Ohio.*

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The Only Place To Stay In Moscow

God forbid your having to do business in the Soviet Union. But if you do, the place to stay is the new French-owned and -operated Hotel Pullman Iris in Moscow. Complete with its own bar, restaurants, conference rooms, and fitness and business centers, it is an oasis in Russia. Close to the airports and just 30 minutes from Red Square (with a fleet of chauffeur-driven Renaults to zip you there and back), the Pullman Iris is as good as it gets for the business traveler in a country where luxury—even comfort—are relative terms. You'll find attractive rooms with big double beds (almost unheard-of in the U.S.S.R.); local and international television, including CNN (with speakers in the bathroom, next to the hair dryers, so you don't miss a trick); and, perhaps most important, excellent food. This is accomplished by trucking *all* food and beverage into Moscow from Paris rather than dealing with local suppliers.

If you're traveling to the Soviet Union for the first time, you'll have some questions. What to speak? What to pack? Russian, preferably, then French or English; and warm clothes in layers, for the colder it gets outside, the hotter they stoke the furnaces inside office buildings and museums. Also take: anything else you could possibly need, as you will not be able to buy it in Russia. The currency of choice is the dollar, for taxis, restaurants, hotels and most shopping. In addition, you may want to take a supply of gum, lipstick, small perfumes, cigarettes (Marlboros are appreciated), pantyhose and lots of single dollar bills, all to be used as tips or bribes as necessary. Not that I'm recommending anything, mind you. Just reporting.

An American in the Soviet Union is an instant celebrity. You will therefore have no trouble meeting people; you may, however, be unable to get rid of them. As for doing business in the Soviet Union, it can be a nightmare—convoluted, evasive, just plain slow. Phone calls to the States are extraordinarily expensive (I paid $70 for six minutes, using a calling card purchased for cash at the hotel desk). Faxes cost even more and are unreliable. Telex communications are the best solution. The Hotel Pullman accepts reservations by telex; and its front desk is happy to help with any communication needs, as well as to make arrangements for sightseeing, tickets to the Bolshoi, personal translators or secretarial work. Everyone I dealt with spoke English, and proved very helpful. This is important: you will need their assistance, more so than in most other cities of the world.

Pullman Iris Hotel: Korovinskoye Chaussée 10, 127486, Moscow. Telephone 011-795-487-9044. Telex 871-413-656. For reservations: 800-223-9862; 212-719-9363 (in New York). Room rates: single, $220; double, $253. Rates are converted from the French franc and are subject to change.

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ON THE BLOCK

Gunning for the record books, this engraved-and-cased Winchester model 1876 may prove the priciest American fire-arm yet. At Butterfield's, San Francisco.

The West, and the art it inspired, are currently being radically reinterpreted, as anyone who caught "The West As America," the National Museum of American Art's recent exhibition in Washington D.C., well knows.

The exhibition, which featured 164 works of art, suggested that the painters and photographers who roamed the West between 1820 and 1920 were engaged in a massive propaganda exercise designed to draw whites from the East and to countenance the destruction of the Indian race. "Works of art don't always mean what they seem to say," the exhibition text tells us, suggesting that in these artists' real opinions the Indian was inferior to the white man—a view supposedly reflected in their works.

By Caroline Butler

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Foundried fathers: Benjamin in bronze. At Freeman's, Philadelphia.

Tranquil, peaceful and beautiful—a Couse take on the Pueblo Indians. At Selkirk's, St. Louis.

The works of two such artists are coming up for sale, and you can form your own view on the subject from the Moon photograph or the Couse oil, below. Such over-interpretation seems to me in itself an exercise in propaganda. The best comment made on this type of interventionist rewriting of art history was an anonymous note in the visitor's book to the show: "This exhibition gives a whole new meaning to the expression 'patronizing the arts.' " The works below are available for you to indulge in the more usual form of patronage.

ULRICH WINCHESTER RIFLE, BUTTERFIELD'S SAN FRANCISCO

The record for a single American firearm sold at auction is probably held by a Colt six-shooter revolver that Christie's unloaded for $242,000 in 1987. But this Ulrich deluxe presentation engraved-and-cased Winchester model 1876 may surpass it. The gun will highlight Butterfield's Oct. 22 sale of the John R. Woods Collection of Winchester firearms.

C. F. Ulrich was Winchester's top engraver, and here his deeply cut, signed game scene reveals an absolute sureness of hand. The gun was presented in 1884 to Col. Gzowski, Aide-de-Camp to Queen Victoria. It is in mint condition, unfired, .50-.95 caliber, with the original velvet-lined, birds-eye maple case complete with all accessories and a full presentation inscription. Estimated at $200,000-$400,000, it is surrounded by 150 spectacular guns. Contact: Greg Martin, 415-861-7500.

EUROPEAN IVORY PLAQUE, BOOS'S, BLOOMFIELD HILLS, MICH.

If the talent and technical virtuosity apparent in this ivory piece had gone into a painting, not only would it be signed, but its signer would be a household name. Alas, of this piece we know very little.

It was carved in Europe in the early- to mid-19th century, which saw an expansion of ivory carvings and the establishment of specific schools such as the one set up in Dieppe, France, in 1808. The scene is of ferocious Roman games, perhaps in the Colosseum, which pitted men against bulls in a confusion of horses, soldiers and elephants. This piece, estimated at $8,000-$12,000, measures 9" by 15" and is part of over 200 ivories for sale at the Frank H. Boos Gallery, Sept. 24-26—the largest sin-

European ivory carving, at Boos's, Bloomfield Hills, Mich.

gle collection of ivories to come to the auction market in some time. Contact: Jonathan Boos, 313-332-1500.

MONUMENTAL SCULPTURE OF BENJAMIN FRANKLIN, FREEMAN'S, PHILADELPHIA

"June 12th 1752 was the day on which Benjamin Franklin extracted lightning from the sky with his kite and key." So runs the inscription on the base of this six-foot bronze sculpture of Philadelphia's famous son. Franklin's accomplishments seem endless: one of the greatest American researchers in pure science; drafter of the Declaration of Independence; signer of the Treaty of Paris in 1783; minister to France; linguist; writer. At home, his concern with civic improvements put Philadelphia ahead of other cities in matters of welfare and learning, as can be seen by the results: the American Philosophical Society (1743), the University of Pennsylvania (1751) and the Pennsylvania Hospital (1752). When he died in April 1790, Franklin was accorded the world-wide honors he had earned.

Renowned for her commissioned contemporary portraits (Carl Sandburg, John Gielgud, et. al.), Philadelphia sculptress Agnes Yarnall (1904-1989) completed Franklin's statue in 1966, and the surface treatment is typical of her work. It will be auctioned during Freeman Fine Arts'

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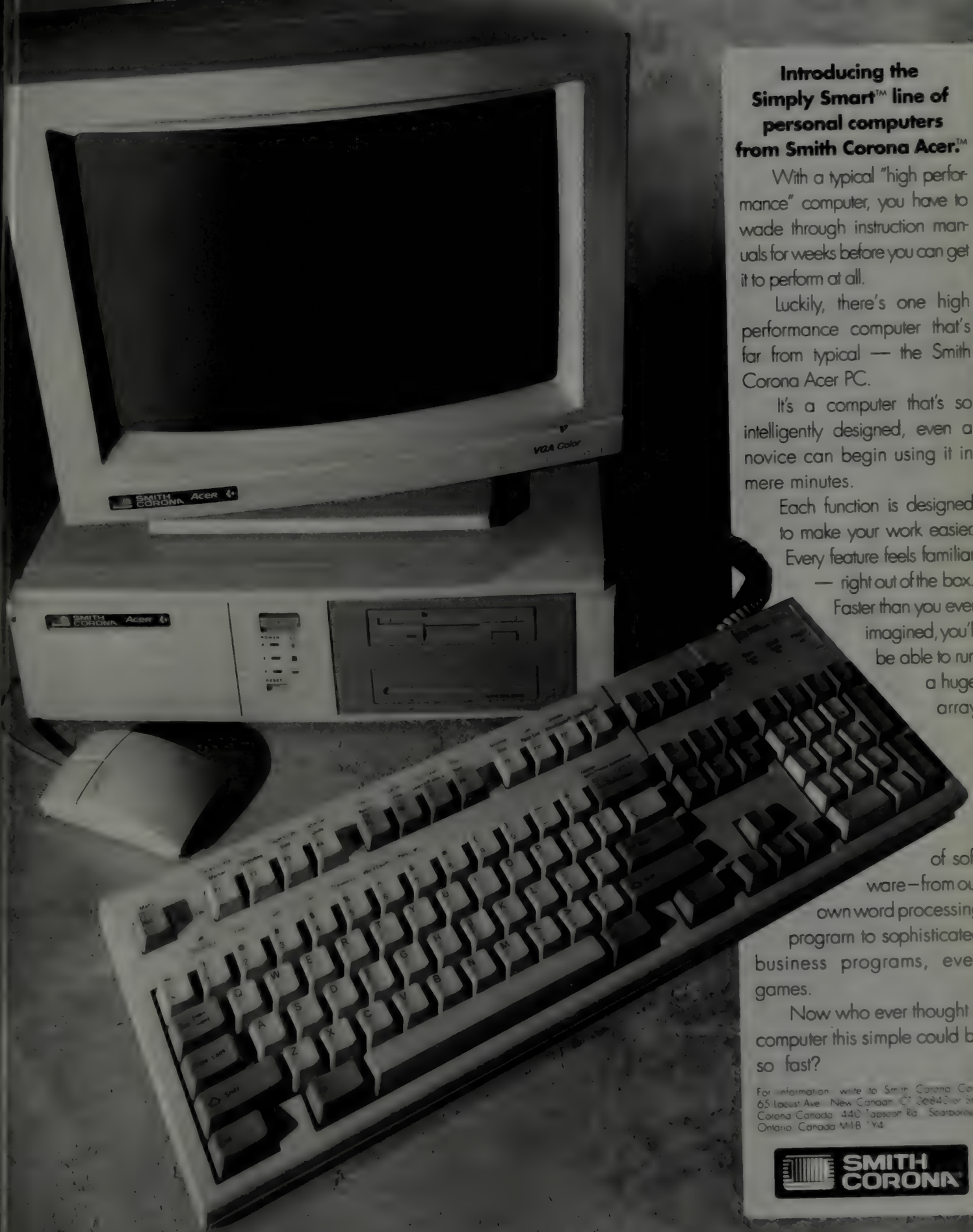

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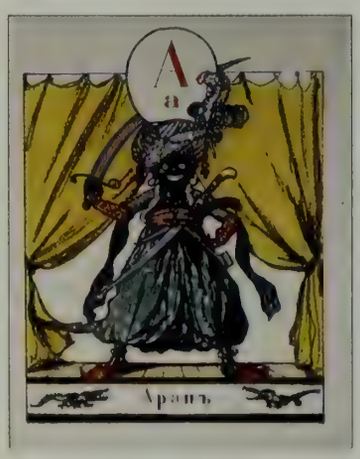
Thank goodness the drinking age is 21. A lewd Kirkpatrick flask, at David Rago's, Lambertville, N.J.

Samorous intentions? Davis Jr. memorabilia, at Butterfield's, Los Angeles.



"A" is for Arab. Russian children's book, at Swann Galleries, New York.

Oct. 10-12 sale (estimate: $30,000-$50,000). Contact: Leslie Lynch-Clinton, 215-563-9275.

MOONLIT SCENE BY EANGER IRVING COUSE, SELKIRK'S, ST. LOUIS

Eanger Irving Couse (1866-1936), who made his reputation painting monumental Indian subjects, is among the best known of the Taos School of painters who immortalized the lives of Pueblo Indians living around Taos, N.M. Couse portrayed the Indians in his paintings almost poetically—tranquil, peaceful and beautiful—like this woman and boy gazing out over their village wall under a rising moon. Couse often characterized his subjects as engaged in some domestic activity, here marked by the olla pot resting against the wall. This oil-on-canvas, measuring 46" by 35¼", was awarded a silver medal at the Panama Pacific International Exposition of 1915. For sale at an estimate of $50,000-$60,000 at Selkirk's Autumn Sale, Sept. 23-26. Contact: Mark Howald, 314-533-1700.

KIRKPATRICKS' SHOOFLY FLASK, DAVID RAGO'S, LAMBERTVILLE, N.J.

Cornwall and Wallace Kirkpatrick owned, operated and worked in several potteries in Ohio and Kentucky, but it was at the kiln they founded at Anna, Ill., in 1859 that they established their own eccentric style—almost precursors to George Ohr.

The title of a 1987 exhibition devoted to their work at Anna is revealing: "Forever Getting Up Something New." The catalogue that accompanied the exhibition divided their work into several categories: "utilitarian" (household stoneware), "novelties for fairs" (more imaginative pieces), "directory urns and jugs" (pieces with maps on them), "pig flasks" (animal-shaped), "snake jugs" (used for alcohol, the snakes representing the evils of drink), and, of course, "miscellaneous."

This last group included mugs with frogs inside them to surprise the drinker, and this lewd flask for liquor. Made in brown-black fired stoneware in 1891 and 7" high, it features a black woman astride the flask shooing away a fly. Her dress is rumpled up at the back exposing her in a way that, *ahem*, leaves nothing to the imagination. (For adults only.) Estimated at $6,000-$9,000, it is for sale on Nov. 10 at David Rago's Arts and Crafts. Contact: David Rago, 609-397-9374.

SAMMY DAVIS JR. MEMORABILIA, BUTTERFIELD'S, LOS ANGELES

One of the most popular type of auctions in recent years has been the memorabilia sale, with the catalogues—chock-full of descriptions—often prized as souvenirs. The sales themselves are well worth attending as friends and fans press in to secure a last familiar piece, sometimes at prices defying gravity. Remember Andy Warhol's cookie jars?

The Butterfield's sale on Sept. 22 of the estate of Sammy Davis Jr. puts the spotlight on Hollywood, Las Vegas and Broadway. His estate includes his collection of hats, scrapbooks, the Davis guest book, photographs such as an early portrait of Marilyn Monroe (signed "To Sammy . . . With Warmest Regards"), his jewelry, art, and this director's chair (estimated at $700-$900) and walking stick (estimated at $800-$1,000, in a group lot of ten sticks). Contact: Laura Smissaert, 213-850-7500, ext. 210.

RUSSIAN CHILDREN'S BOOKS, SWANN GALLERIES, NEW YORK

Glasnost has certainly opened doors which had been hermetically sealed. Some of them reveal Communist nurseries filled with books ready to provide budding Marxists with the ideology for the future, as well as those to help them solve more elementary tasks, like learning the alphabet. These two colorful examples are part of a collection of at least 20 illustrated books which have recently come over from the U.S.S.R.

Pictured to the left, the "A" for Arab from Alexandre Benois's "Azbuka" or alphabet book. Benois was the stage and costume designer of Diaghilev's *Ballets Russes*, and his concept of Arabs seems to predate the 1930s by a few centuries (estimate: $1,000-$2,000). A propaganda book

y Arkady Gajdar, Moscow 1933, (es-mate: $200-$300) describes in ex-reme caricature the struggle be-ween cigar-smoking capitalists and oble Communists. At Swann Galler-es' auction on Nov. 7. Contact: Caro-ine Birenbaum, 212-254-4710.

A rising Moon—a silver print of Pesothlanny, at Swann Galleries, New York.

KARL MOON'S PORTRAIT OF PESOTHLANNY, SWANN GALLERIES, NEW YORK

Unlike many of his contemporaries, the work of western photographer Karl Moon (1879-1948) remains relatively obscure. However, by the time this striking portrait of Pesothlanny was shot, Moon had exhibited in many museums, and, at the special invitation of President Theodore Roosevelt, had even found his way into the White House.

This toned silver print, attributed to Moon, was made in 1907 after the photographer had moved to the Grand Canyon and started working with Fred Harvey on his collection of Southwest Indian pictures. The portrait measures 9¾" by 7¾" and is on the original double mount with the Fred Harvey copyright blindstamp on the recto. For sale at an estimate of $800-$1,200 at Swann Galleries on Oct. 8, in a strong field of photographs which runs from Brady, Abbott and Weegee, to Irving Penn's "Rock Groups, 1967: Janis Joplin, Big Brother and the Holding Company, and The Grateful Dead." Contact: Daile Kaplan, 212-254-4710.

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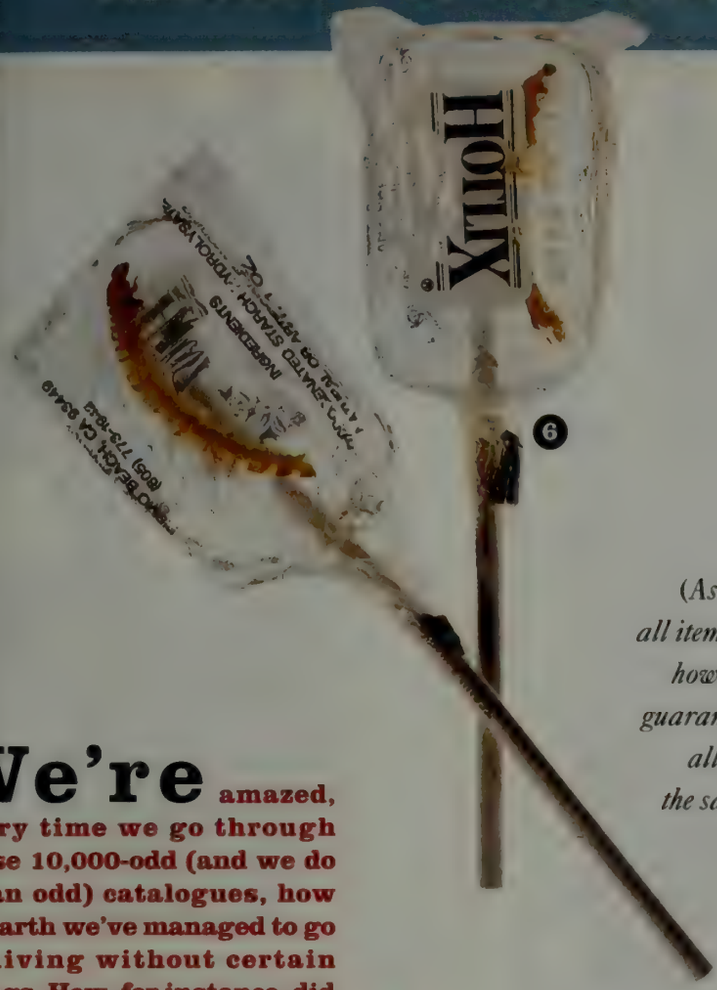

(As of press time, all items were available; however FYI *can't guarantee they will be if all of you order the same thing at the same time.)*

We're amazed, every time we go through these 10,000-odd (and we do mean odd) catalogues, how on earth we've managed to go on living without certain things. How, for instance, did we get this far without ...

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Item #6118K (black Lab) $23.50
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2 *Go ahead and laugh, but if Napoleon's troops had had this warm-air Boot Dryer, Queen Elizabeth's annual message to Parliament would begin,* "Bonjour."
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3 *They might not be deterred by rain, sleet, nor snow, but this swordfish mailbox'll stop those carriers in their tracks. Post not included.*
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4 *You could look it up. You'd find it on this Corvette Data poster, in 24 by 36 full-color inches.*
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5 *Been feeling a little tart after that dip in the pool? You might want to check its pH with this acid rain test kit.*
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Edmund Scientific.....609-547-8880

6 *Tequila "sucker" lollipop, each with its very own worm. An ideal conversation starter. Or, give it to your cavity-ridden youngster next time he or she asks for a sweet. That'll cure 'em.*
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8 *Eighteen—count 'em—lip-smacking pounds of River Ruby grapefruit and "polished"— wow!— avocadoes. Note: available for Christmas delivery only.*
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9 *Strange But True Football Stories video, hosted by Vincent Price.* Thrill *to the NFL's curiosities, such as the one-eyed quarterback.* Chill *to the one about the player whose diet was blood and raw meat! Hahahahahahahaaaa!*
NFL 1086 .....$19.98
NFL Films Video 800-NFL-TAPE

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1 *Whoa, what have we here? None other than a Frangipane pear tart: juicy pears, almond filling, sweet butter dough. Serves 8 to 12; or one really hungry person.*
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Harry and David **800-547-3033**

2 *Kevin Costner called it home in* Dances With Wolves. *The same folks who made all of his will be happy to make a tipi for you, too.*
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3 *It looks a little friendlier than a riding crop, but the idea's the same, namely, to let that 1,200-pound horse between your legs know that when you say, "Giddyup," you mean* "Now."
Item #940 ..... **$19**
Phelan's **415-332-6001**

4 *We'll just quote their copy about this bass jigsaw puzzle: "The funny thing about this puzzle is holding it up by one piece when it's complete, moving it slightly and watching it ripple like a real fish. Try it!"*
Item #1F **$620**
Stave Puzzles **802-295-5200**

5 *We are not—repeat, not—recommending these as a means to sneak stuff through Customs; but if you're planning a stay at Motel 6, these "Stash" cans could come in handy.*
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9 *No, this is not sashimi, this is food like we used to eat before we devoted 80% of our conversational energies to cholesterol. These filets mignon are lean but not mean. Hold the A-1 sauce.*
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5
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Potato
SOUP
AJAX
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Forbes FYI

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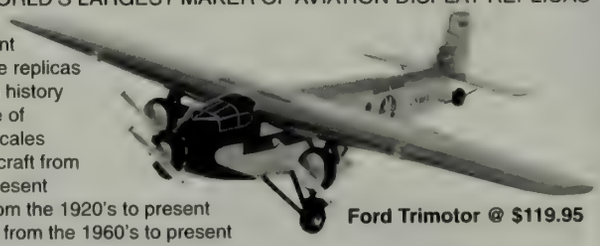

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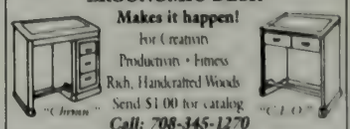

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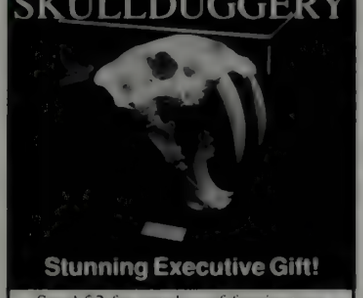

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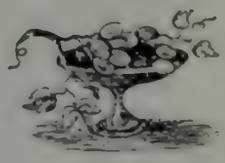

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"The Eighty Yard Run"
By Irwin Shaw
Collected in
Five Decades,
Delacorte Press, paperback, 1978, pg. 24

Darling half-closed his eyes, almost saw the boy fifteen years ago reach for the pass, slip the halfback, go skittering lightly down the field, his knees high and fast and graceful, smiling to himself because he knew he was going to get past the safety man. That was the high point, Darling thought, fifteen years ago, on an autumn afternoon, twenty years old and far from death, with the air coming easily into his lungs, and a deep feeling inside him that he could do anything, knock over anybody, outrun whatever had to be outrun. And the shower after and the three glasses of water and the cool night air on his damp head and Louise sitting hatless in the open car with a smile and the first kiss she ever really meant. The high point, an eighty-yard run in practice, and a girl's kiss and everything after that a decline.

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October 14, 1991 Four Dollars

Forbes

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Forbes
OCTOBER 14, 1991 VOLUME 148 NUMBER 8

Forget TV sets. In three years there won't be any.
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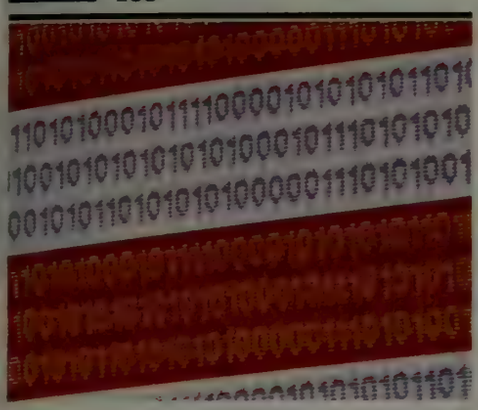

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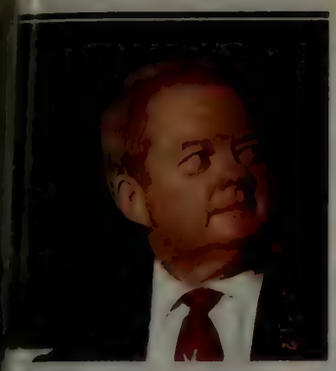

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Cover photo by Lester Lefkowitz

We've Turn
Americans In

Millions Of Homebodies.

To have a home, a place where no one is more comfortable than you.

That search—the striving for decent and affordable housing—runs so deep through our society that finding new ways to supply it has always been a national priority.

As a congressionally chartered, shareholder-owned corporation, Fannie Mae has helped ensure home financing for more than thirteen million families in all 50 states.

Linking the world's capital markets to hometown lenders all across America, Fannie Mae made over $115 billion available for residential mortgages—homes—in 1990 alone. And in every state, regardless of how its region is faring, the presence of a Fannie Mae means that there is a constant flow of mortgage money at the lowest possible cost.

Without a Fannie Mae in the market every day, some of those thirteen million families would have paid higher rates or found it more difficult to get a mortgage. Some might have been denied homeownership altogether or seen the cost of rental housing move out of reach.

Millions more families will be searching for a place to call home. Fannie Mae wants to make sure that each of these families has a chance to go from being a prospective renter or home buyer to a homebody.

FannieMae
The USA's Housing Partner

Forbes

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PAID CIRCULATION OVER 735,000

The big squeeze

A LITTLE ELECTRONICS COMPANY in California has figured out how to compress video images by a factor of 1,000-to-1 and how to squeeze the equivalent of a special-purpose supercomputer onto a chip costing $150. So what? So plenty. What this means, according to author and technology visionary George Gilder, is that the computer and television industries are merging much faster than anyone would have thought possible a few years ago. The TV of the future will not be the dumb instrument of today but a smart machine connecting the home with the entire outside world—a combination computer, TV, telephone and much more. The open question is whether this technological future belongs to U.S. computer firms or to Japanese home-electronics firms. "Now or never" starts on page 188.

Why not privatize it?

"INITIALLY I WAS WARY of the notion of a for-profit baby adoption service," says Lisa Gubernick, who wrote "How much is that baby in the window?" Gubernick got the idea for an article on the baby adoption business after talking with a friend whose eagerly hoped-for adoption had fallen through. "The more people I talked to," Gubernick says, "the clearer it became that the whole adoption business hovered somewhere between disarray and outright deception; I found parents who had to return babies after they took them home, attorneys who falsely promised that their adoptions almost never fell through." Gubernick finally concluded that no matter how callous and venal it might sound, privatizing the adoption business was not such a bad idea. Her story starts on page 90.

Avon calling

FEW OF OUR READERS are old enough to remember Carl Crow's *Four Hundred Million Customers.* This book caused a stir of hope in the 1930s by suggesting that the U.S. could pull itself out of the Depression if only it could sell a few dollars' worth of goods to each one of China's masses. It never happened, but in a curious way some of that prophecy is now being realized: Nearly 60 years later Avon Products has opened a great new market for its cosmetics business in a China now populated not by 400 million but by 1.1 billion. Anyone who doubts the American way of life is eminently exportable should read "Ding-dong, capitalism calling" by Andrew Tanzer. The story starts on page 184.

Avon in China

Politics first?

IN CONSIDERING THE RENOMINATION of Robert Clarke as U.S. Comptroller of the Currency, Congress has the chance to ask some interesting questions. The Comptroller is the nation's chief national bank regulator. Why did Clarke's office approve the ill-fated merger of Dallas' InterFirst Corp. and RepublicBank Corp., whose ultimate failure as First RepublicBank will cost taxpayers close to $3 billion? Did he let politics rule over good judgment in that case? William Barrett asks in "A few questions for Mr. Clarke." See page 136.

James W. Michaels
Editor

J&B

J&B with a splash.

like any other dinner party.

There were people I didn't know. People I didn't want to know. And people I knew that I wish I didn't know.

It just doesn't get any better than that.

Rebecca, the hostess, spotted me from the far end of the living room. A smile landed on her face, and she started to zoom toward me like a vacuum cleaner.

"Thanks for coming Gary let me take your coat," she recited.

"I wouldn't miss it for the world," I said.

In all honesty, though, I would have.

If Rebecca's dinner party were just flying through space somewhere, and the world happened to be passing by, make no mistake, I would jump onto it.

The living room was well-appointed. On one wall, there were bookshelves. All the books looked the same. I wondered if I pulled out the right one, whether it would swing the bookcase and myself into a completely different room.

In an effort to mingle, I walked over to a couple that looked like they could use some company. I introduced myself. We talked about what I did. What they did.

And it was over.

A clean break.

Next came the young woman I [illegible] on the subway last week. She w[illegible] old friend from college, and I [illegible] ing she wouldn't see me [illegible] like I had hoped on the subway. But before I could do [illegible] ing about it, we were en[illegible] a conversation about the [illegible] days. I actually didn't mind it. [illegible] it was identical to the conversation we had previously.

It was a rerun.

After it was over, she smiled, and said "It was nice running into you Gary, maybe I'll see you on the subway again."

I told her I wasn't ready to make that kind of commitment.

Perhaps what bothered me most about Rebecca's dinner party, though, was Burt's nose.

It w[illegible]n't that it was the size of an [illegible]trium.

I could live with the fact that it swooped up most of the air conditioning in the room.

[illegible]rt that really got to me was [illegible]t all the guests had to duck every [illegible] Burt turned his head.

Like the boom on a sail boat was coming around.

It was especially inconvenient for the hired waiters serving hors d'oeuvres.

They thought it would be an easy way to make a buck, not a hazardous one.

All the couch seating was taken, [illegible] always is at these dinner parties. The people sitting on the couch looked like they arrived extra early, and slept outside in hopes of getting the very best tickets.

To say they weren't about to get up goes without saying.

One guy was sitting between two women. Bobbing his head in an I'm-the-most-handsome-gameshow-host-that-ever-lived kind of way.

He was the kind of man that you'd expect to see walking through heaven someday with a flooz[illegible]h arm.

But for now, he [illegible] a spot I wouldn't min[illegible]

It would be great, [illegible] sudden, he put his arms a[illegible] the women, and slid right off the plastic that was covering the couch and onto the floor.

Or if someone pressed a button that hoisted him up toward the ceiling in a net. To see him flapping around like a caught fish would be nothing less than splendid.

It was time for dinner to be served.

[illegible]hen the hostess, [illegible]ly parted the doors [illegible] room, so that everyone [illegible] through.

As though it were the Red Sea.

While everyone filtered into the room, someone tugged my hand from behind.

It was Penelope Parker.

An art director I used to work with at an advertising agency. She looked very attractive. Long flowing dark hair, a tall slender body.

Only one thing bothered me about her brilliant [illegible] eyes. [illegible] nothing behind th[illegible]

Penelope could do anything she put her writer's mind to.

That's how she made it anywhere.

"Gary, fancy meeting you here," she said opportunistically.

"Well, if it isn't Penelope Parker," I stated, wishing it weren't.

From that moment on, I knew who I'd be spending the rest of the dinner party with. She always had a thing for me.

We sat next to each other at the table.

She was capable of going on about nothing in particular quite well.

According to her, I would imagine,

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Reality: another dose

RUPERT MURDOCH had a tougher year than FORBES thought *(Sept. 2)*. In its recently released annual report, Murdoch's Australia-based News Corp. shows funds from operations of $343 million. But that includes $1.9 billion from the disposal of businesses. Without those proceeds, News Corp. actually had a $1.6 billion net outflow of funds from operations in the year ended June 30.

Alex Quesada Matta

Rupert Murdoch of News Corp.
Which way did the cash flow?

The company also reported a $565 million increase in operating lease commitments—an expensive way to finance capital equipment off the balance sheet. On the balance sheet itself, borrowings rose $111 million.

Australian accounting rules do not require News Corp. to reveal its cash flow from operations; instead the company files a "statement of sources and applications of funds," which lumps together all funds from financing, operations and sales of investments. But since News Corp. trades securities in the U.S., where accounting rules are tighter, it will have to file a consolidated statement of cash flows with the Securities & Exchange Commission in December.

A Murdoch spokesman would not discuss the latest numbers. But if Murdoch does intend to raise equity or debt from the public market, as he told FORBES, investors and lenders will be going over News Corp.'s SEC filings with a fine-tooth comb.

–KATHRYN HARRIS

Is that Buffett on first?

IF YOU'RE A little short of the $95 million or so it takes to buy a big league baseball team, don't forget the minor leagues (*Feb. 9, 1987*). Minor league teams have been changing hands at $5 million or so. The major league clubs pick up all equipment costs and salaries, leaving farm team owners to pay for stadium leases, marketing and some travel costs.

Attendance-wise, the minors are as popular as ever, providing gritty if not always graceful baseball at an affordable price. But deals for the teams have ground to a halt, right along with values. In the last year the Triple A Vancouver Canadians and Omaha Royals each sold for around $5 million—the same price fetched in 1986 by Triple A Louisville Redbirds.

One factor depressing prices is the determination by the major league team owners to squeeze more money out of their farm clubs. The majority of minor league franchises are owned by independent businessmen. But since the big league teams own the players, they have a lot of say in how the farm teams are run. "We spent $7 million on our minor league system last year, up from $3 million five years ago," barks Chicago White Sox owner Eddie Einhorn. "If they show a profit, we want some of it back."

The Triple A Louisville Redbirds
Bargains down on the farm.

Last year the majors struck a seven-year profit-sharing deal with the minors, taking a small percentage of the gate receipts and cutting their coverage of farm club players' hotel ex-

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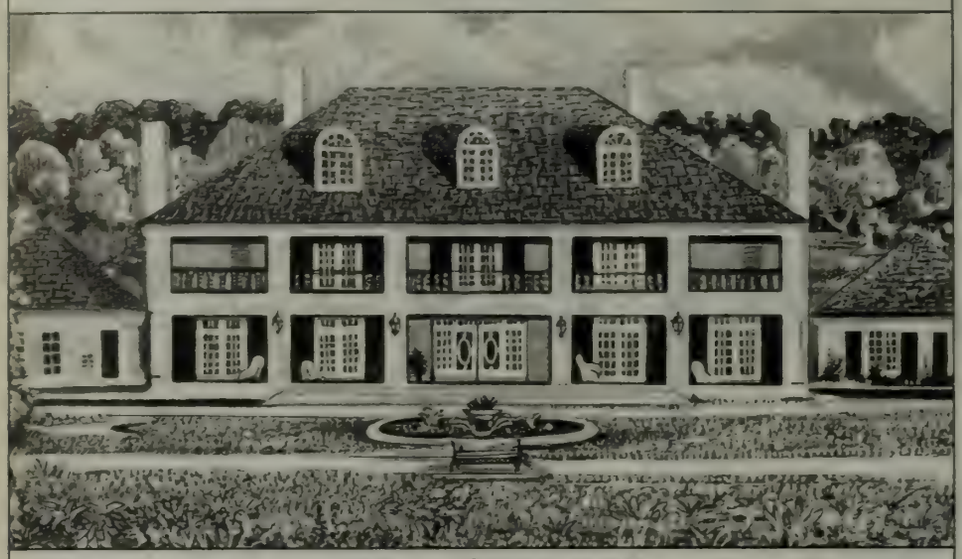

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penses. Robert Richmond, a farm-team broker, says that parent clubs are now covering as little as 20% of the farm clubs' operating costs, down from a third. Still, by keeping a tight lid on costs, many teams manage to turn a profit, especially in markets with no competing big league teams.

A good contrarian investment? Could be. In July Warren Buffett bought 25% of his hometown Omaha Royals for $1.25 million.

No vacancy

FORBES CHECKED into the Coeur d'Alene Hotel but didn't check it out enough. The 18-story, 340-room resort, nestled on the northern Idaho lake of the same name, seemed like the ultimate white elephant. FORBES figured that Coeur d'Alene (pop. 25,000)—400 miles from Boise and

Idaho hotelier Duane Hagadone **Putting Coeur d'Alene on the map.**

500 miles from the Sun Valley ski resort—was too isolated for the hotel to succeed *(July 28, 1986)*.

So how's it doing? "Just try to get a room," laughs Duane Hagadone, the hometown publishing and real estate entrepreneur who began building the resort in 1984. He says that occupancy rates are far above the 60% FORBES said the hotel needed to break even. Hagadone says Americans' rekindled interest in domestic vacation spots hasn't hurt. And Coeur d'Alene got a big boost last November, when *Condé Nast Traveler* magazine rated it as the best resort in the mainland U.S.

The hotel isn't cheap. Prices go from $100 a night for a room without a lake view to $2,500 for a penthouse suite with glass-bottomed swimming pool. But with Spokane International Airport a mere 35-minute drive away, the Coeur d'Alene is attracting guests from as far away as Japan. Now Hagadone is planning another hotel on the lake, scheduled to open by 1994.

—KATARZYNA WANDYCZ

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to the delight of America's drivers and critics. And much
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makes it more comfortable than you ever imagined. You'll notice it when you s
in the firm, contoured seats. When you slide open the power moonroof. And
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injected, 140-horsepower engine gives the Accord more power than ever befor
And the 4-wheel double wishbone suspension translates into tremendously agil

Accord LX model shown and described. © 1991 American Honda Motor Co., Inc.

ime you saw a asted 17 years?

ndling. The result is truly amazing. You can respond confidently to virtually y driving situation you might encounter.

This car also excels in safety. A driver's side airbag is now standard. Along ith a sophisticated anti-lock braking system to help you control the car on rain-ick surfaces. You can actually steer the car while braking.

The body is also quite enviable. The lines are clean and smooth. The fit nd finish are consistently excellent.

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Friendly skies

SIR: Re "Hit 'em hardest with the mostest" *(Sept. 16)* about Southwest Airlines. For the last five years I have flown regularly between Albuquerque and Los Angeles on Southwest Airlines. Some time ago, a female member of the flight crew announced, with the softest of Texas twangs, "On behalf of yo'r flight crewwww we would like to welcome y'all to Los Angeles. If you enjoyed yo'r flight please tell your friends you flew with us here at Southwest. On the other hand, if you didn't enjoy this flight tell everyone you know you came on Delta's Flight 739."

From the explosion of passenger laughter and applause, my own included, I'd speculate that we all left the plane toting a little less of life's burden.

–JOCK A. BEGG
Newport Beach, Calif.

Soviet relations

SIR: Re "Commentary" *(Sept. 16)*. Caspar Weinberger's first major issue—"Get Rid of Gorby"—ignores the fact that Gorbachev, regardless of how he walked the fence, made Yeltsin possible, while his second—"Bring on Star Wars"—is sadly predictable. Weinberger must realize that Yeltsin is a loose cannon in a volatile situation. Frankly, if the U.S. winds up in support of Weinberger's first position, it is almost obliged to support his second.

–KAREN A. WEST
Madison, Wis.

Inventive solutions

SIR: In "Whose invention is it anyway?" *(Aug. 19)* FORBES proposes that one solution to the problem of patents with overly broad claims is "to set up a forum in which harmed inventors can challenge dubious patents by offering new evidence of invalidity without having to undergo expensive litigation." Happily, such a forum already exists.

During the life of a patent, any person may request that claims of the patent be reexamined by the Patent Office. Articles in technical journals and the like may be brought to an examiner's attention so that overly broad claims may be narrowed or canceled altogether. Requesting reexamination is considerably less expensive than challenging the validity of a patent in court.

–GEORGE W HOOVER
Blakely Sokoloff Taylor & Zafman
Los Angeles, Calif.

SIR: One choice when one faces an adverse patent is to invent around the problem patent. A purpose of the patent system is to foster this type of stimulated invention to advance the useful arts. Another: Invent and patent improvements of, and inventions related to, the troublesome patent for possible cross-licensing use. The point is that actions can be taken to help a company compete.

VINCENT J. RAUNER
Senior Vice President
Patents, Trademarks and Licensing
Motorola Inc.
Schaumburg, Ill.

SIR: For years patent holders were afforded little protection for their inventions. Now that inventors are finally able to reap the benefits of patent protection, someone cries foul! If patents lose a lot of their value, pioneer inventors will not bother with them, preferring to keep their technology protected under trade secret. That will reduce the amount of usable information available to study and improve, and then we will all lose.

–MICHAEL TAVELLA
Patent agent
Anchorage, Alaska

Less than zero

SIR: Your article "The strange case of the glancing geese" *(Sept. 2)* makes a

There goes the neighborhood.

trong case that Environmental Protection Agency regulations are a violation of Fifth Amendment prohibitions against taking private property. More importantly, expropriation of property results in the loss of the pricing signal that is essential for making efficient market decisions. When land prices are artificially set close to zero by government decree, it does not seem costly to use land for environmental purposes. Unfortunately, the true land price is hidden and inefficient public choice decisions are likely to result.

–James L. Doti
President
Chapman University
Orange, Calif.

Watch for splits

Sir: I was shocked to see Dean Foods listed as the "worst" performing stock in your Forbes/Barra Wall Street Review *(Sept. 30)*. The drop in the share price reflects a 3-for-2 stock split—not poor performance!

–Howard Dean
Chairman and Chief Executive
Dean Foods Co.
Franklin Park, Ill.

Editor's note: Our data supplier's computer missed a number of recent stock splits and, unfortunately, our data checkers did not detect this error. Here are the correct split-adjusted 2-week changes for these stocks as of the market close on September 5, 1991:

Bergen Brunswig –3.8%
Dean Foods –0.6%
Deprenyl Research 35.0%

Read the instructions

Sir: Re Thomas Sowell's column on computer and VCR instructions *(Sept. 16)*. While users guides may not be as clear and concise as they could be, the largest problem is laziness and incompetence on the part of the user.

People who are willing to *read* the instructions before trying to obtain instant operation of their computer or VCR are often successful. Those who expect "one button" operation from their computer or VCR will soon find themselves in a frustrated rage.

–James A. Leslie
Bloomington, Ind.

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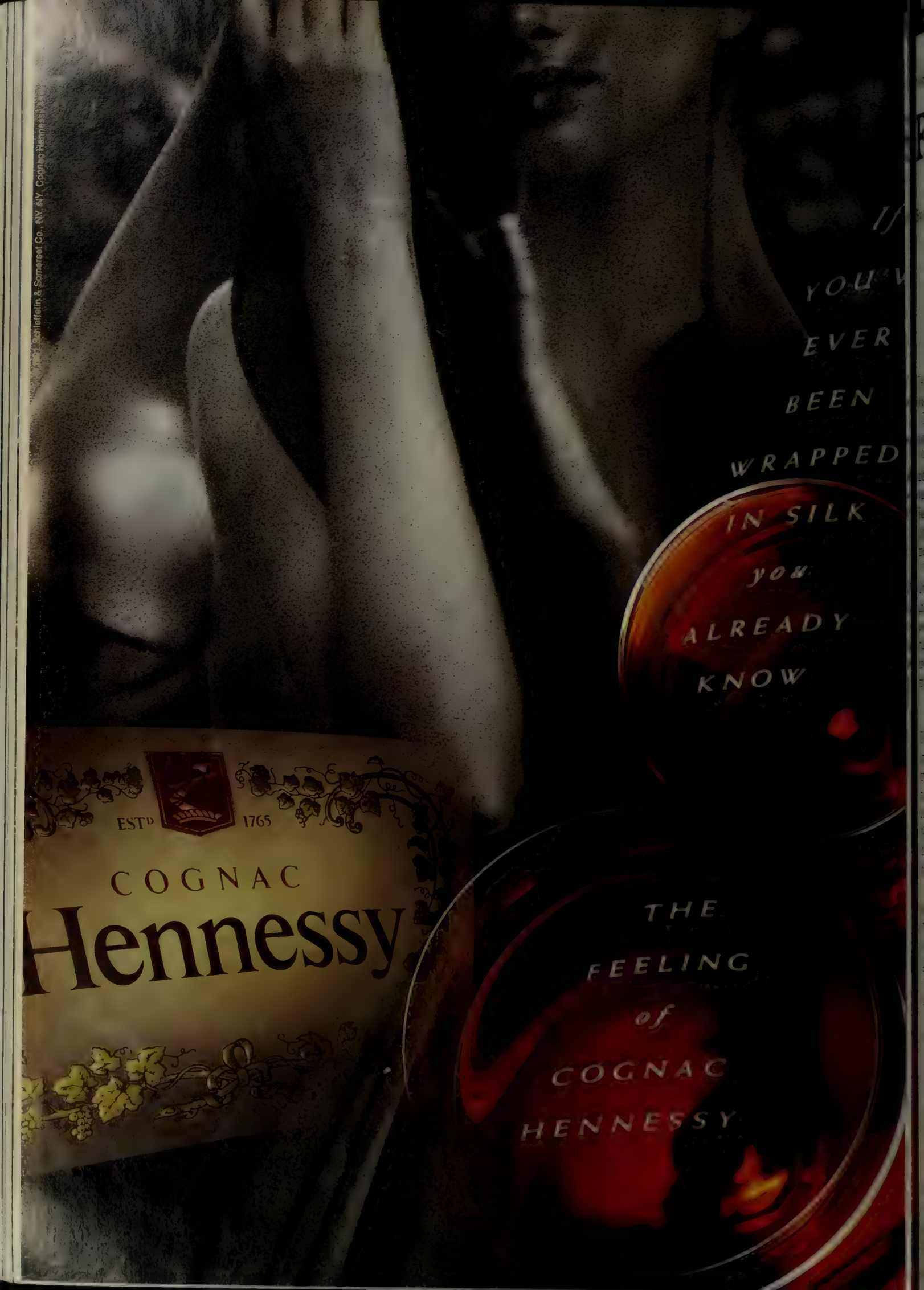
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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

TIME TO CHOOSE—THE 1920s OR THE 1940s

THE U.S. HAS TWO basic choices in responding to the events in Europe and, soon, in China.

The direction we take will have an enormous impact, not only on those areas but on our future prosperity.

We can assume a complacent hands-off attitude, as we did with the rest of the globe in the 1920s. World War I was fought by us to make the world safe for democracy. But we did nothing to promote the process when the conflict ended. Our isolationist mentality made possible the Great Depression and another world war.

We learned our lesson in the 1940s. We joined the United Nations. Infinitely more meaningful, we created an environment where democracy and economic growth could thrive. We helped create the Bretton Woods international monetary system that stabilized currencies, thereby allowing capital to flow and grow. We initiated the General Agreement on Tariffs and Trade, which began a process of sharply reducing trade barriers; world trade blossomed. We set up NATO, which provided Western Europe security from Soviet aggression. We launched the Marshall Plan, which gave Europe capital to jump-start stagnant economies.

Are the United States and Western Europe adopting the isolationist model? The European Community recently blocked trade-opening measures with Poland, Hungary and Czechoslovakia. Some U.S. policymakers still believe that democracy is a done deal in those Central European nations. Such complacency is out of place. Most of the peoples of these areas have seen only hardship. A considerable number are wondering: Where are the benefits of democracy and free markets?

Is it beyond our capacity to innovate initiatives truly responsive to the problems—and opportunities—in the former Communist bloc?

IS GOLD GUIDING THE FED?

THERE IS CIRCUMSTANTIAL evidence that it is. If true, the implications for the economy are profoundly positive. In the next couple of years, interest rates would fall to levels not seen since the mid-1960s. The cost of capital would go down. Stocks would rise. Mortgages would be cheaper. The budget deficit would be lower since we would have to pay less national debt interest.

Federal Reserve Chairman Alan Greenspan has long been fascinated by the barbarous relic as a monetary guide. His influential colleague, Governor Wayne Angell, has stated that commodity prices, particularly gold, are the best compass for avoiding inflation and deflation.

History shows that gold is the most sensitive monetary barometer. Properly utilized, it never lets the dollar become too dear or too easy, sort of like a control mechanism that keeps a steady room temperature. When we began abandoning gold in the late 1960s, interest rates went haywire, never returning to the levels they had generally held for the previous two centuries.

Dallmeyer

In 1896, Democrat Bryan ran for President against gold. He lost; the U.S. prospered.

Angell is said to think the right price for gold is around $350. Thus, when it went below that level, Angell-watchers were not surprised that the Fed cut the discount rate to its lowest level in 18 years.

Under the traditional gold standard, central banks bought and sold the yellow metal directly. With this new, emerging system, the Fed buys and sells government securities in response to changes in gold prices. So watch carefully: If the yellow metal doesn't shoot up in the weeks ahead, the Fed will again drop interest rates.

If Greenspan were to formally announce that this gold standard was indeed the new system, the cost of money would become cheaper faster: Markets respond quicker to explicit, not implicit, policies.

WHAT *IS* THE FED SUPPOSED TO DO?

MOST INVESTORS, executives, financiers, government officials, legislators and journalists would be hard put to come up with a sound-bite answer. No wonder. The nation's central bank has always wiggled away from being bound to any set task, to any meaningful performance criteria.

The Fed in the past has acted as if it could simulta-

neously control interest rates, fine-tune money supply, curb inflation, stabilize financial markets, manipulate the value of the dollar, help finance the federal deficit, regulate banks and foresee future economic activity.

Astonishingly, the White House, Congress and the media have never tried to pin the Fed down on what its job is and how it should be judged.

What, indeed, should the central bank do? Preserve the value, the integrity of the dollar. Do that and the markets will never be starved for adequate credit. And, in a crisis, Greenspan & Co. should act fast to prevent debilitating panics, as they did after the 1987 stock market crash. That's it. (Bank regulation should be elsewhere.)

The Fed should *not* try to fine-tune the economy. Its economists can no more second-guess the activities of hundreds of millions of people than could Soviet planners. Nor should our bank biggies try to slow down economic activity just because they think that growth triggers inflation. Easy money debases money, not people's working.

OVERHEARD

ONE CEO ASKED another, "Are you going to put a facility in Russia?"
"No, we're not buying green bananas these days."

GROWTH PROMOTES PEACE

THE FIGHT BETWEEN Israel and the U.S. over housing credits obscures a more important aggravator of Mideast turmoil: economic stagnation.

The best balm for that region's murderous rivalries would be a vibrant, expanding middle class. Yet all the states there are burdened by economic feudalism (also called socialism). Governments dominate their economies. Even Israel is overtaxed, overregulated, overbureaucratized.

Michael Hirsch/Gamma Liaison

West Bank housing for Soviet Jews.

We would do more for peace by concentrating on economic growth than by carving up real estate. Growth won't much ameliorate the intense dislike between Arab and Israeli and between Arab and Arab. But within the past 40 years, both Western Europe and the Pacific Rim have demonstrated that economic progress focuses peoples' energies on getting ahead rather than on shooting each other.

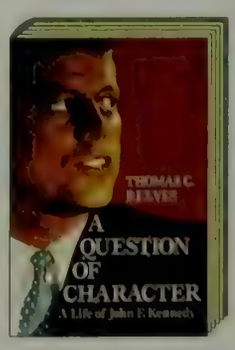
With Israel, for example, we should use the $10 billion loan guarantee as an "incentive" for Jerusalem to slash tax rates, ease bureaucratic obstacles for setting up new businesses and embark upon a serious privatization program. Personal tax rates in Israel quickly reach 58%; tariffs are prohibitive and corporate levies extreme. The government controls most of the land and dominates, directly and indirectly, the allocation of credit. Housing permits take years to obtain.

The Israelis are an energetic, entrepreneurial, well-educated people. They face an influx of Soviet refugees that will increase their population by nearly 25%. The economy has little to offer these skilled immigrants. Meaningful free-market reforms would trigger a Pacific Rim-like boom.

While neighboring governments might continue their verbal assaults, their people wouldn't long be oblivious to Israel's new prosperity. These states would soon be enacting their own reforms, probably with new governments. As South Korea and Chile have shown, prosperity builds pressure for democracy.

DEFLATED

A Question of Character—by Thomas C. Reeves (The Free Press, $24.95). Turns Camelot into Tobacco Road. Almost everything about the JFK image was starkly false. Portrayed as a devoted family man, Kennedy was unfaithful almost daily. Image makers said his domineering father played a minor role when Kennedy went into politics; in truth, his father orchestrated his son's campaigns in detail. Kennedy did not write *Profiles in Courage*, as he vigorously maintained; speechwriter Theodore Sorensen did. Rules and a sense of fair play were for others; Hubert Humphrey was viciously smeared in the critical West Virginia primary. Despite the image of "vigah," Kennedy was probably our sickliest President. Compliant physicians covered up the truth. As President, JFK even took "feel-good" injections from a quack physician. Historians and journalists surveyed three years ago by *American Heritage* found Kennedy's public image to be among the most inflated of our Presidents'.



But the deflation has been overdone. Camelot acolytes are right that Kennedy grew in office. His economic policies, particularly his tax cuts, triggered our longest-lasting expansion. When the moment was ripe, he put forward the most sweeping civil rights bill in almost 100 years. And it is inconceivable, given his innate caution, that Kennedy would have allowed Vietnam to become the quagmire it did under his successor.

Excerpt: *In early February 1955, Jack returned to the hospital for the removal of a silver plate used in the first operation. [His friend] Dave Powers watched the surgical dressing being changed and later observed that Jack "had a hole in his back big enough for me to put my fist in it up to the wrist." Two weeks later, Jack was again in Palm Beach to recuperate. Powers recalled that he was in constant pain and unable to sleep more than an hour or two at a time. "The Ambassador [Joe Kennedy], who was there with us all the time, would say to me often, 'Dave, don't try to give him anything for the pain—it's something he has to go through.'"*

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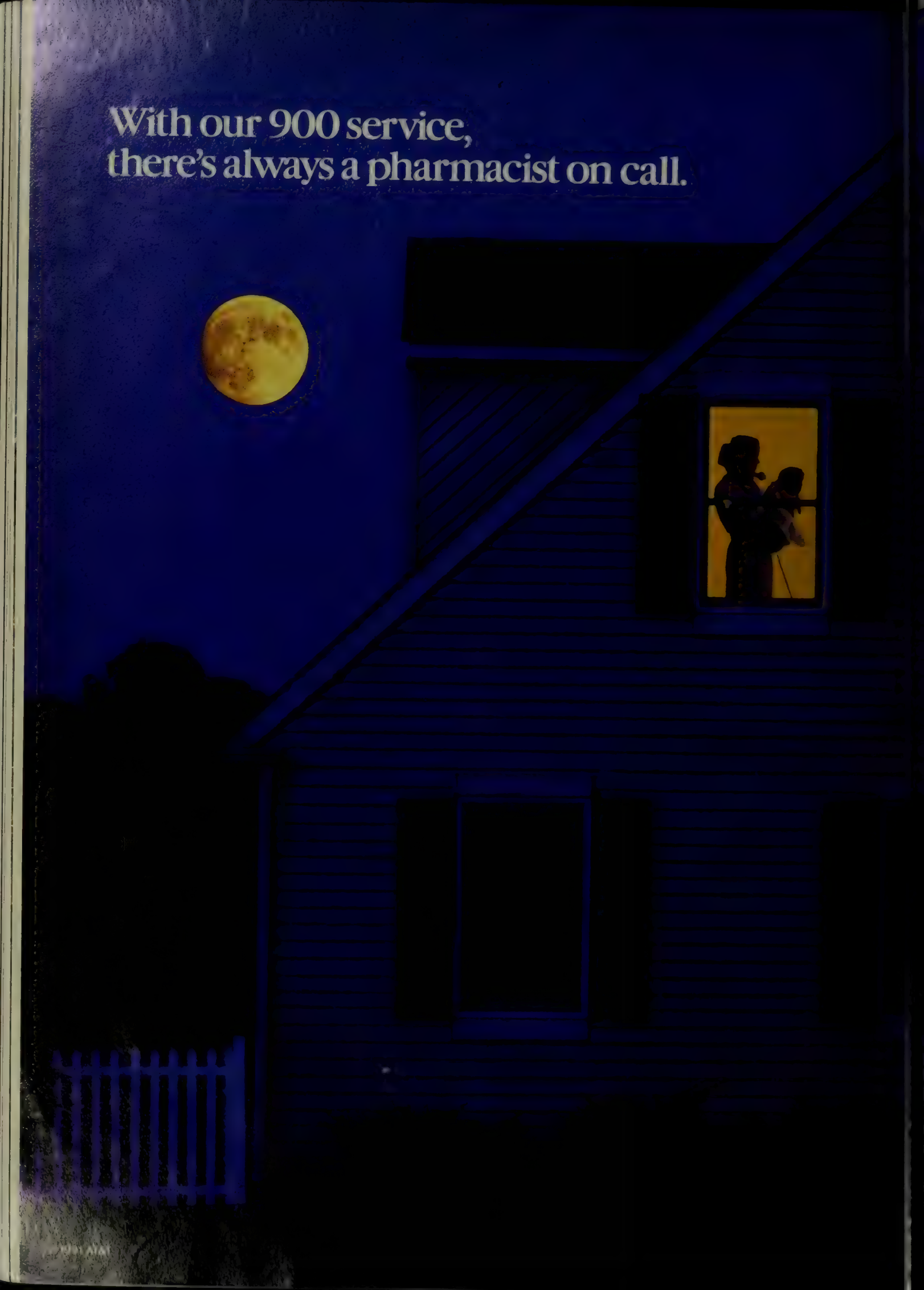
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Other Comments

Self-Help First

I DON'T WANT to be like Gorbachev. I don't want to travel around the world begging for dollars. I want to create a situation, an economic environment, here in Russia where people want to come here, and want to help.
–BORIS YELTSIN, interviewed by T.D. Allman, *Vanity Fair*

Right-Thinking

SO MANY blacks think right and vote left. I am of the view that black Americans will move inexorably and naturally toward conservatism when we stop discouraging them; when they are treated as a diverse group with differing interests; when conservatives stand up for what they believe in rather than stand against blacks.
–CLARENCE THOMAS, Supreme Court nominee, at the Heritage Foundation, 1987

Lessons of Utopia

IN A SOCIETY that prides itself on individualism, self-reliance, personal initiative and independence, we consistently elect officials whose instinct is to solve our problems through government programs. Few people, it seems, have acknowledged a connection between what's happening in Eastern Europe and what's going on here. To paraphrase President Kennedy, we should ask not what Eastern Europe can learn from us, but what we can learn from Eastern Europe. Once burned, the people of Eastern Europe are not likely to fall prey to the notion that all things can be achieved if only government gets involved. The question is, are we going to pay heed, or are we destined to make some of the same mistakes with some of the same consequences?
–JUDGE ALEX KOZINSKI, U.S. Court of Appeals of the Ninth Circuit, who left Romania in 1961 at age 11

Edifice Complex

"GOING 200 or 500 stories high is a marvelous achievement, but I'm not sure what it achieves," said A. Eugene Kohn, an architect. Putting up a 150-story building, for example, is generally estimated to cost about twice as much, and take about twice as long, as creating the same amount of space in three 50-story buildings.

A 100-mile-an-hour wind can blow a 1,000 foot-tall tower 2 feet off center, causing the top of the building to sway a total of 4 feet, according to Lynn S. Beedle, a professor of civil engineering at Lehigh University.

Said Howard J. Kogan, a psychoanalyst, "The whole preoccupation with size, the height of a building rather than its rational use, is a suggestion of underlying emotional insecurities. It's similar to a teen-age boy's locker-room comparisons."
–MICHAEL DECOURCY HINDS, *New York Times*

Honest criticism is hard to take, particularly from a relative, a friend, an acquaintance or a stranger.
–FRANKLIN P. JONES, *637 Best Things Anybody Ever Said*

We Told You So

WHO WAS RIGHT? Why, we were, of course. And by "we" I mean the unreconstructed hard-line anti-Communist cold warriors. We were right, in the first place, on the moral question. We said—and never stopped saying—that Communism was one of the two great forms of totalitarianism, and as such no less evil than Nazism. We said—and never stopped saying—that no people had ever freely decided to live under Communism, or ever would if given a choice.

On all these points, nowadays so blandly conceded by everyone, we were not only opposed but were sneered at, ridiculed and defamed. We were told these things not only by the Communists themselves but by good liberals and social democrats—people who in their own eyes differed from us in being more realistic, more flexible, more pluralistic and (above all) more devoted to peace.
–NORMAN PODHORETZ, *Encounter*

Casals Who?

JOHN F. KENNEDY'S emphasis on the value of the arts and humanities [during his administration] tends to conceal his personal dislike and distrust of intellectuals. Jackie once cracked that the only music her husband really appreciated was *Hail to the Chief*.
–THOMAS C. REEVES, *A Question of Character*

"I can never remember when to use who and when to use whom."

New York Life is large, conservative, and dull. Reassuring in times like these, isn't it?

Things are a bit shaky these days in the financial world. Investors are getting a lot less adventuresome. And words like "stability" and "security" are coming back into vogue.

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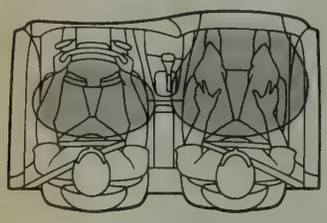
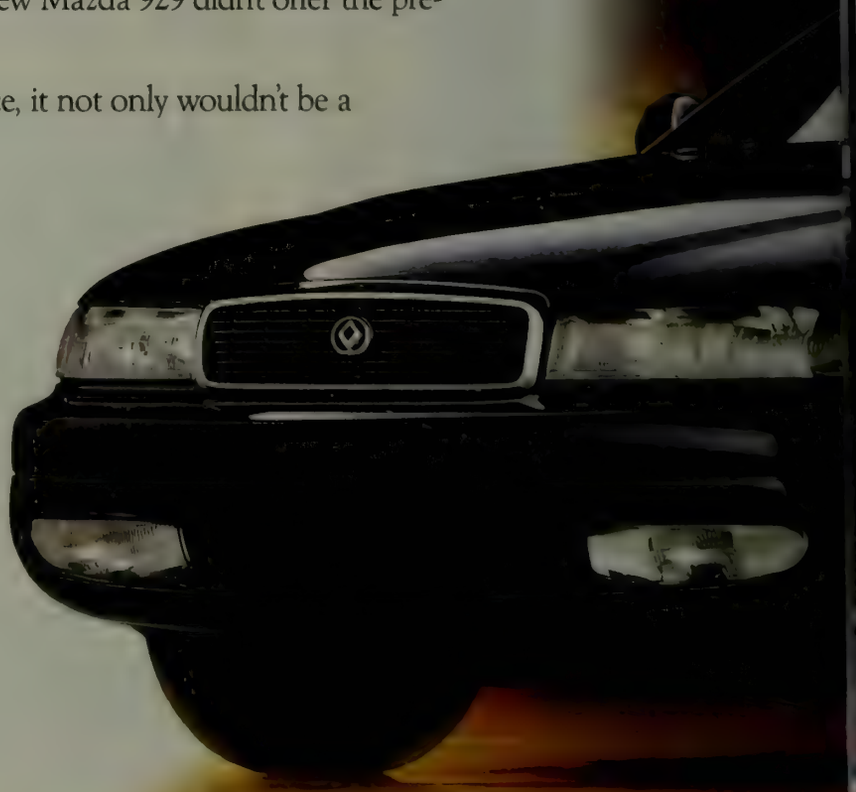
INTRODUCING THE NEW MAZDA 929. THE FIRST LUXURY SEDAN THAT DOESN'T DEPEND ENTIRELY ON LUXURY TO MAKE YOU FEEL GOOD. Why should the rewards of owning a fine automobile be restricted to the purely physical? It was this unconventional thinking that ultimately led to the new Mazda 929. A luxury sedan conceived not by corporate committee but by a fine artist. Resulting in aesthetics that may strike a somewhat deeper chord in you than cars normally do. ❧ And to help satisfy your desire for environmental responsibility, we've eliminated 70% of our manufacturing waste. Further distinguishing the new 929 from automobiles that rely on extravagance as their sole appeal. ❧ Of course, you can also savor the eager yet smooth acceleration



of its 24-valve V6 engine, the security of standard air bags for both driver and passenger and the supple contours of its leather-trimmed upholstery.* ❧ After all, if the new Mazda 929 didn't offer the prerequisites of uncommon comfort and performance, it not only wouldn't be a luxury sedan. It wouldn't be a Mazda.



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*Seats upholstered in leather except for back side of front seats, bottom cushion side panels, and other minor areas.

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mazda
IT JUST FEELS RIGHT.

Swissair

Commentary

on events at home and abroad

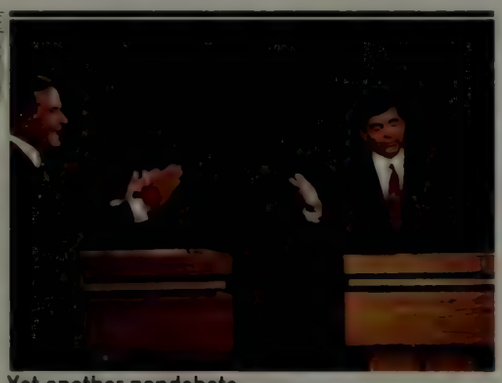
By Caspar W. Weinberger, *Publisher*

PRESIDENTIAL DEBATES—A NOVEL 1858-TYPE PROPOSAL

IN 55 WEEKS we will elect a President. In little more than 17 weeks, a few voters in Iowa and New Hampshire will officially open the process.

All of which is to say that it is none too soon to begin thinking about debates between the presidential candidates, and what form the debates should take.

Much has been written, mostly etched in acid, about what a terrible campaign 1988 was. Part of this stemmed from the result, which few commentators liked, and part from the fact that, as is always the case in campaigns, a large amount of time was devoted to things the press said (but reported at inordinate length) were nonsubstantive, inflammatory, not connected with governance and were otherwise generally disreputable. These included references to the premature parole of a murderer named Willie Horton, the effect of Massachusetts environmental laws on a legendarily filthy Boston Harbor, and microscopic examinations of the private lives of the candidates and their families.



Yet another nondebate.

Whether the 1988 campaign was any worse than any other national or state campaign is debatable, although the universal chorus of media anger would lead one to think it was.

One thing about which there is general agreement is that the so-called presidential debates have degenerated into events most respected television and print correspondents call a "sham." In fact, they are not debates at all.

Thus it is particularly timely that Harvard's Kennedy School of Government has issued a study called "Nine Sundays" that is designed to improve presidential debates. While this proposal offers some improvement over past formats, the plan, when viewed with Harvard's required healthy skepticism, still needs many changes before those citizens interested enough to watch would be able to make reasonably informed voting decisions.

Briefly, the proposal is that, for the nine Sundays between Labor Day and Election Day, there should be television coverage of two real presidential debates, one vice-presidential debate, and five "conversations," with the two presidential candidates being grilled by a "television moderator and two experts selected by the networks." The ninth Sunday would have speeches, apparently uninterrupted, by the two candidates.

The best part would be the three debates, if indeed they are debates. Most certainly what we have seen in the last three or four presidential campaigns were not debates. They were press conferences conducted by reporters acceptable to both sides, complete with packed studio audiences ready to cheer, sneer or otherwise influence the much wider, unseen national audience.

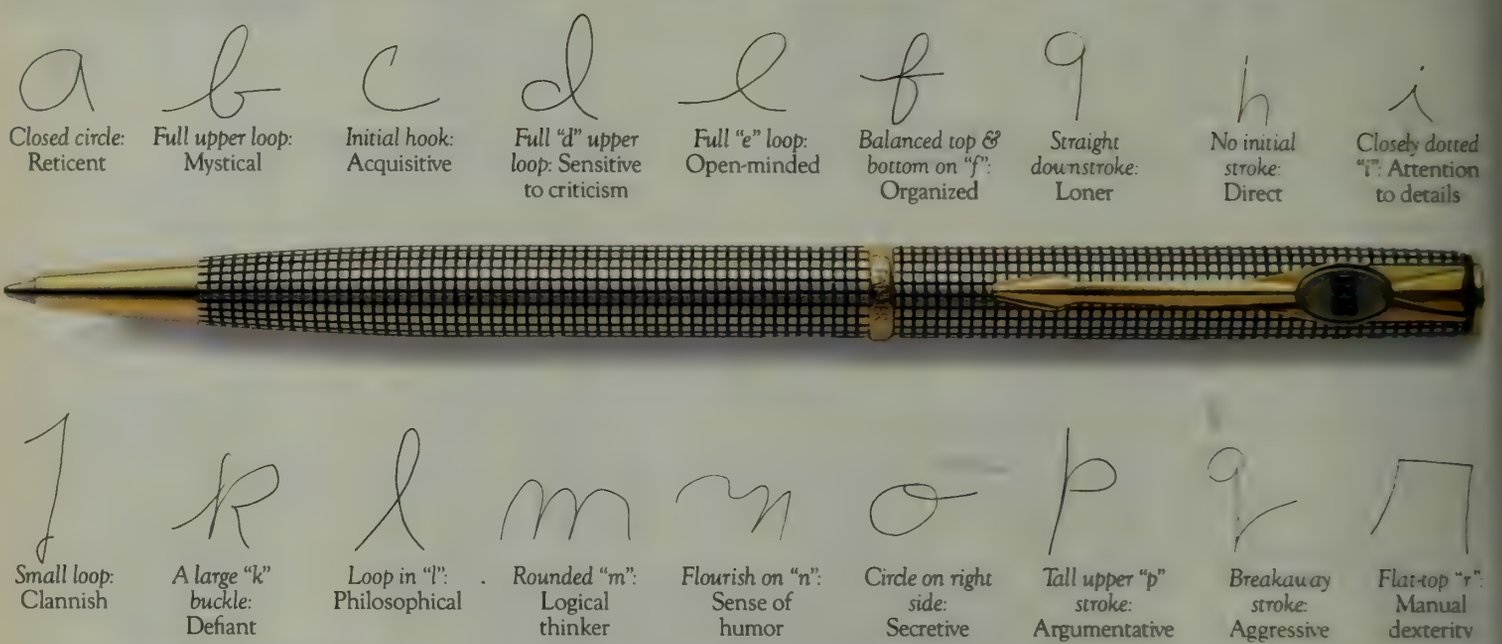
No one has ever explained why the candidates' views have to be prompted by and filtered through the screen of reporters who are found to be acceptable to the two candidates. Why is it we cannot simply hear from the candidates themselves? Oddly, the Harvard study states that "no one believes that in this age of television we can suddenly return to the Lincoln-Douglas model." Why not?

Why can we not simply hear from each candidate without anyone else prompting the questions and thus filtering the views of the two candidates? Why can't each candidate be allowed equal time for opening statements, rebuttal and closing statements? Consider the Lincoln-Douglas debates, which took place in Illinois in the 1858 campaign for a U.S. Senate seat. They produced, without benefit of radio, television or even rapid newspaper coverage, a greater understanding of the most important issue that the country would face in the 1860 presidential campaign.

The Harvard plan obviously represents a compromise. That is why it includes both debates and "conversations," with the latter turning out to be five Sundays of acceptable network types talking with the candidates as if all of them were running for President.

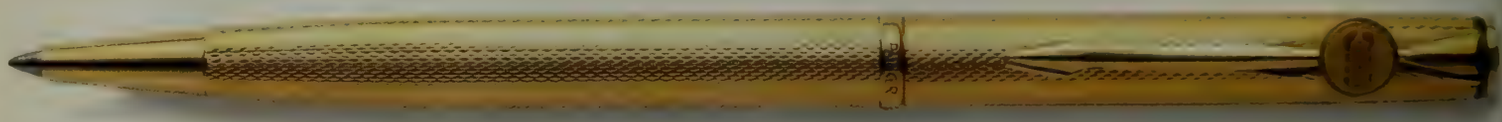
"Nine Sundays" would, I think, be vastly improved if it were "Four Sundays," three genuine Lincoln-Douglas-style debates with only the candidates and a timekeeper involved, and one similar vice-presidential candidates debate. The candidates themselves already schedule closing speeches on the last Sunday. The so-called "conversations" would simply perpetuate the nondebates of the last three or four presidential campaigns.

INTRODUCING A CORPORATE GIFT FOR EVERY CHARACTER.



Closed circle: Reticent
Full upper loop: Mystical
Initial hook: Acquisitive
Full "d" upper loop: Sensitive to criticism
Full "e" loop: Open-minded
Balanced top & bottom on "f": Organized
Straight downstroke: Loner
No initial stroke: Direct
Closely dotted "i": Attention to details

Small loop: Clannish
A large "k" buckle: Defiant
Loop in "l": Philosophical
Rounded "m": Logical thinker
Flourish on "n": Sense of humor
Circle on right side: Secretive
Tall upper "p" stroke: Argumentative
Breakaway stroke: Aggressive
Flat-top "r": Manual dexterity



Soft "s" ending: Yielding
Sweeping t-bar: Enthusiasm
Final hook: Tenacity
Sharp "v": Analytical
Short initial stroke: Temper
Firm ending: Decisive
Full lower loop: Imagination
Narrow loop: Selectivity

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Early signs that the credit crunch may ease

THE U.S. SENATE is understandably holding the feet of Robert L. Clarke, Comptroller of the Currency, to the fire for his department's sins *(see story, p. 136)*. There was a time when banking regulation was clearly too lax. But then Clarke's bank regulator brigades swung too far the other way, causing banks to cut back credit too far. It has played a part in causing the recent recession and current lackluster recovery.

Though it's too early to be sure, there are signs that a new, more enlightened attitude is emerging among the bank regulators. In early August a new circular (Number 255) emerged from Clarke's Office of the Comptroller of the Currency. What it said was that banks could take a more businesslike and longer-term view of a troubled loan, especially in the real estate market. Even though a building's appraised value may have sagged in today's market, the regulators are now allowed to accept that a basically sound property loan should eventually come good—provided interest is being paid.

This may sound trivial, but it could have a big impact. As a simple example, take a $10 million building with a $7 million mortgage. Full interest is being paid, but the appraisers say the building is now worth $6.5 million. Until recently the bank examiners would have rated the loan as nonperforming and required that a provision for a partial loss be charged against the bank's earnings. Interest received would have to be accounted as a recovery of principal. In other words, even though there's positive cash flow on the loan, regulators would have counted it as a loss.

When this happened, banks often preferred to foreclose at 30 cents to 40 cents on the dollar, take the writedown and get on with business. The impact on the rest of the economy has been gun-shy banks and tight credit.

Will Circular Number 255 help prize open the credit taps? A small straw in the wind: In an early couple of bank examinations completed since the circular was published, the banks' proposed workouts on problem loans were accepted by the OCC's examiners. In the recent past, that would have been unlikely, says Peter S. Carlsen of workout specialist Kenneth Leventhal & Co.

"This sort of approach is exactly what we want to happen," says John Robson, deputy secretary at the U.S. Treasury. "Now we have to make sure all 7,000 examiners comply."

Keep your fingers crossed.

An opportunity for business and the greens

ONE BIG CAPITAL SPENDING need facing American businesses is pollution control equipment. By one estimate, $35 billion was invested in it last year, and more will be needed to meet the new Clean Air Act. But companies get no help from the U.S. tax code. A new study by the Law Library of Congress finds that at least eight of the U.S.' major trading partners, including Japan and Germany, "offer tax treatment for pollution control equipment that appears far more generous than anything the U.S. offers," says study coordinator Stephen Clarke. The competition often gets special tax breaks or faster depreciation for environmental equipment.

And the recent recession makes the comparison look even worse for U.S. companies. Many will be in for a rude surprise when they attempt to depreciate their investment in pollution equipment. The problem is the corporate Alternative Minimum Tax.

Passed in 1986, the AMT was Congress' attempt to make sure profitable companies paid at least some tax. It forces a company to recalculate its income, adding back in a portion of such tax "preferences" as depreciation, and then to pay taxes on that higher income at a minimum 20% rate. That effectively raises the cost of capital and reduces the incentive to make certain capital investments.

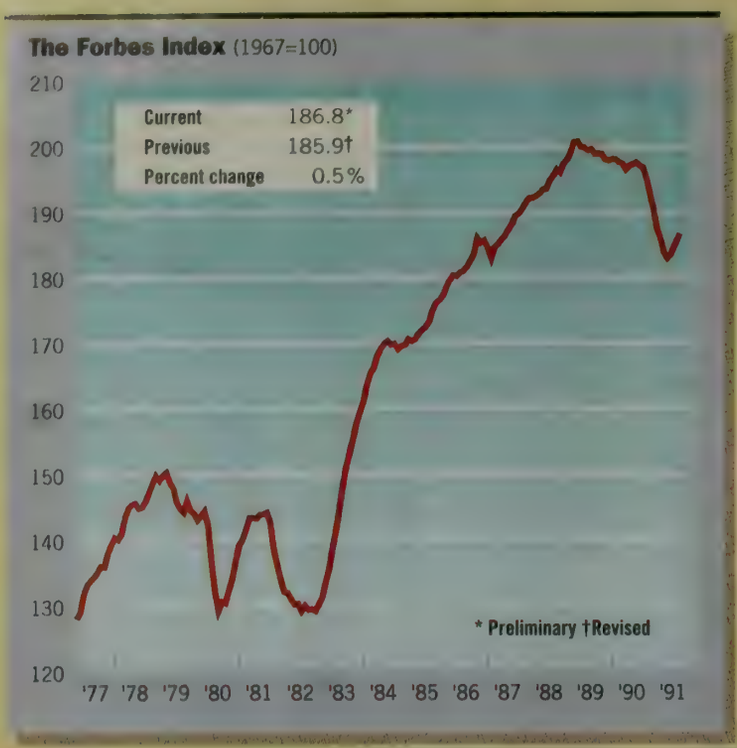
When profits are down, as they are in this recession, more companies making heavy investments tend to get hit with the AMT. In 1987 and 1988, 20% of companies with assets of more than $250 million paid using AMT calculations; in recessionary 1991 that figure could run as high as 40%.

"Just making outlays on pollution control can drive a company into AMT, which effectively raises the cost of all of a company's capital investments," says Margo Thorning, chief economist for the American Council for Capital Formation.

The Council would like to see the AMT overhauled so as to exclude depreciation on all capital investment. But that would cost the Treasury several billion dollars a year. A more modest reform is possible: Don't count spending on pollution equipment as a tax "preference" for AMT purposes. Isn't there common cause here between business and the environmental special interests?

—JANET NOVACK

BY TIMOTHY DODMAN



Americans still have an appetite for foreign products. A large rise in imports—especially consumer goods and autos—pushed the merchandise trade deficit up 56% from June to July. But exports remain strong, too: July's deficit of $5.9 billion is a big improvement over the $9.1 billion trade deficit posted in July 1990. Meanwhile, residential construction has yet to show a substantial recovery, even though mortgage rates are at their lowest level since 1978. New privately owned housing starts fell 8.5% in August and are 7.3% below depressed year-ago levels.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.0%
Auto sales year to date vs 1990[1]	Ward's Automotive	-11.6%
Index of leading indicators July vs June	Dept of Commerce	1.2%
Trade balance 12 months ended July 1991	Dept of Commerce	-$81 bil
All-commodity producer price index Aug vs July[2]	Dept of Labor	[illegible]
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	[illegible]
M2 (3-month change)—annualized growth[3]	Federal Reserve	0.5%

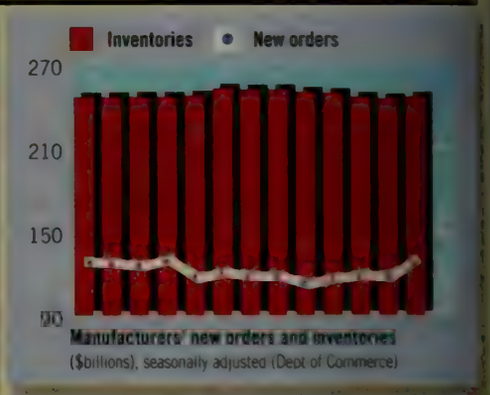
[1] U.S.-based manufacturers, excludes imports, as of 9/10/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

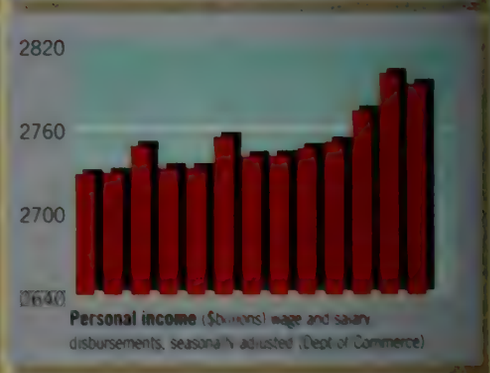
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)



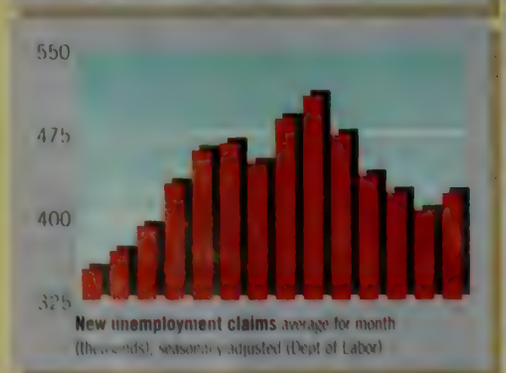
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)

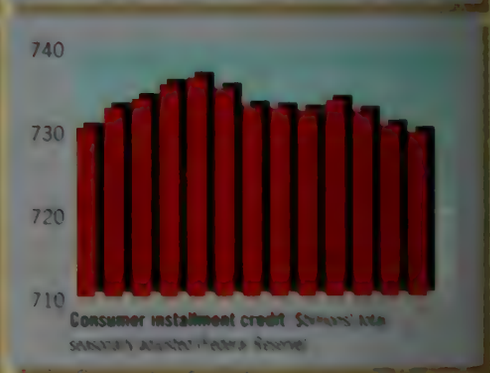


Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total seasonally adjusted (Federal Reserve)

J A S O N D J F M A M J J A J A S O N D J F M A M J J A J A S O N D J F M A M J J A

Good ideas do grow on trees.

LOWE, LURZER

Nature thinks of everything. In the case of the coconut, a fibrous husk keeps it from breaking when it falls to the ground. Along the same lines, Schott's coated "Duran" glass bottles have a special protection to keep them from shattering.

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Even if the glass breaks, there is no leakage. Schott's bottles have a plastic coating to keep valuable fluids contained and to protect people against hazardous chemicals.

When a ripe coconut falls from the tree, the drop can be as much as a hundred feet.

_____ It would certainly break if nature hadn't provided it with effective, built-in protection. The thick, fibrous husk encasing the hard-shelled nut cushions the soft core of meat in case the landing is bumpy.

_____ Schott's "Duran" laboratory bottles feature similar protection. They are made of chemically resistant borosilicate glass with a transparent plastic coating.

_____ Should the glass break, this coating keeps valuable liquids from leaking out.

_____ Our laboratory bottles are totally dependable – even for containing hazardous and highly corrosive chemicals. They provide a high degree of safety and security for technicians and equipment alike.

_____ Plastic coated laboratory bottles, available from Schott America, are just one example of how Schott's innovative development responds to specific needs. In today's world, special glass helps keep technology advancing.

_____ Schott worldwide: 50,000 products, 50 production facilities, represented in more than 100 countries, with over $1.5 billion in sales.

_____ Schott in North America: 11 companies employing more than 1,800 people.

_____ Would you like to know more about our special glass? Write to: Schott Corporation, Department F25, 3 Odell Plaza, Yonkers, NY 10701.

SCHOTT

Nobody knows more about glass.

Recycling seems the aesthetically preferred method for dealing with the garbage crisis. But recycling can be pushed too far, because . . .

"No one wants to shoot Snow White"

By Marcia Berss

IMAGINE A BUSINESS in which the cost of the raw materials far exceeds any revenues the firm's product can generate, and the product supply far outstrips demand. You have just grasped the economics underlying curbside garbage recycling. In the Northeast, for example, old newsprint is in such oversupply that prices plunged from $60 a ton at the end of 1987 to below zero today *(see chart, p. 42)*. Likewise around the country. The Kansas City suburb of Overland Park, Kans. has been giving away its recycled newsprint. Delaware's Solid Waste Authority has been paying $10 per ton to have old newsprint hauled away.

But to question the merits of recycling is to invite the wrath of friends and neighbors. Says Charlotte Frola, a waste consultant, "It is like trying to shoot Snow White."

In response to this popular feeling, over half the states now have some kind of law mandating curbside recycling. Recycling advocates are now leaning on politicians to create buyers. But is recycling the only way to deal with our landfill shortage? No. Is it the best way? Not necessarily.

The biggest oversupply is in newsprint, the major item in curbside collection. Paper consumes the most space in landfills, about 34%. In the last two years, a dozen states have passed laws requiring local newspaper publishers to use a minimum content of recycled newsprint. Beginning this year or next, most laws require 10% to 25% recycled paper content, phasing up to 50% by the end of the decade.

Yet most garbage experts believe no more than 60% to 70% of newsprint can be recycled. And we are already recycling 44%, up from 33% in 1988, when curbside recycling took hold, thanks to Boy Scouts and church groups that collected old

newspapers as fundraisers.

Collecting waste newsprint beyond the 60%-to-70% level is uneconomical because much of it is in rural areas and is too expensive to collect, or is used at home to line birdcages, wrap garbage or for starting fires.

Once the limit is reached, how will publishers in minimum-content-mandated areas get their recycled paper? They'll have to pull it from other uses, fiberboard and exports. Says William Franklin of Franklin Associates, an environmental research firm: "We will redistribute the use of old newsprint, but we won't pull out more from the landfill."

That's one reason some newsprint producers are taking a second look at entering the recycled newsprint market. By last summer 16 Canadian and U.S. newsprint producers announced plans to build de-inking facilities, at about $50 million each, to meet customer demands for recycled newsprint. But with the current big overcapacity in virgin newsprint and no way to recoup the cost of the capital outlays, the economics of making recycled newsprint look shaky. The big Canadian producer Abitibi-Price has already abandoned consideration of building a de-inking facility.

The environmental improvement resulting from more use of recycled newsprint is uncertain at best. It won't save trees. U.S. virgin newsprint is largely made from trees grown as a crop. Nor may it do much to clean the atmosphere. Most of the virgin newsprint consumed in the U.S. comes from Canada, where paper companies use clean, renewable hydroelectric power to fuel their plants. U.S. newsprint makers use higher-polluting, nonrenewable energy like coal. One side-effect, then, of forcing people to use recycled paper could be an increase in the consumption of fossil fuels and a decrease in the use of hydroelectric power.

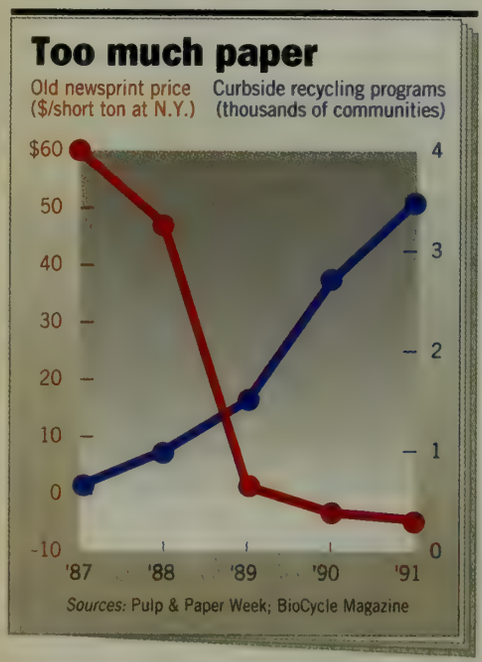
Plastics companies are watching newsprint's mandated-content laws anxiously. Plastics are the number two item in landfills, accounting for 20% of volume. The biggest recycled plastic is soft-drink bottles (30% is currently recovered), made from polyethylene terephthalate (PET). Like recycled newsprint, there's some, but not much, demand for recycled PET. It's used in polyester carpets and stuffing for ski jackets and sleeping bags. The Food & Drug Administration recently okayed the use of recycled PET for packaging food. Coca-Cola just introduced, on a limited basis, 2-liter Coke bottles made with a 25% recycled resin content, but Coke is reportedly paying a 20% premium over virgin resin.

Is greater use of landfills a viable alternative? "We're not running out of landfill space," says Randall Johnson, county commissioner for Hennepin County, Minn. "We're running out of politicians willing to site suitable landfills." That's something of an oversimplification: The politicians are responding to the voters, who believe that the country is about to be buried under a mountain of garbage. But still Johnson has a point. His county, which includes Minneapolis, has a landfill charging $35 a ton, a waste-to-energy facility that costs $55 a ton to operate—and a recycling program, mandated by the state, which costs over $65 a ton.

Landfill versus recycling cost differentials like those are common throughout the country. This year taxpayers in San Jose, Calif. will spend $160 a ton to recycle their waste, versus $93 a ton to dump it. And they don't even have a landfill problem: San Jose has 25 years of remaining capacity at its main landfill and 47 years' capacity is left at another area

Robbie McClaran

Gilliam County, Ore. landfill
$1 million in landfill fees from Seattle is 25% of county revenues and pays for the major school in the county.



Andy Christie/Forbes

ABOVE: Recycled newsprint in New Jersey
LEFT: As supply has risen, prices have collapsed

Mandated supply has led to a glut, and towns are paying to have it hauled away.

site. San Jose taxpayers would save over $3 million this year if they landfilled rather than recycled. San Jose's voters and politicians have overreacted. Robert Davis is vice president of recycling for Browning-Ferris Industries, which both hauls garbage and recycles it. Says he: "It's a lot easier to get a politician to snip a ribbon opening a recycling facility than a landfill."

Yet the fact is that some poorer localities are willing to take garbage—for a price. More communities are agreeing to host landfills as their finances deteriorate (FORBES, *Sept. 3, 1990*). Gilliam County, Ore. (pop. 1,800) wanted Seattle, Wash.'s garbage so badly it fought Oregon state legislators' attempts to tax out-of-state garbage coming into Oregon. Is it right for rich communities to dump their garbage on poorer communities? Maybe not, but this raises another question: Is it right for environmentalists to deprive poorer communities of needed income, income that could produce better schools and roads and other community facilities? Seattle's decision to use the Gilliam County landfill will generate $1 million this year for the little locality.

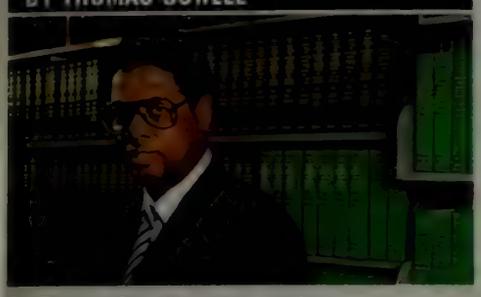
Another route is that taken by the Wisconsin Waste Facility Siting Board. Unlike many states, Wisconsin is siting enough landfill capacity to keep up with its needs. The process isn't smooth. The state's Department of Natural Resources must first approve the environmental and health aspects of a landfill, a process that can take up to seven years. Then the proposal goes to the Siting Board, a negotiating forum for the landfill developer and local citizens and, if necessary, the arbitrator of last resort. Even then the developers have guaranteed the value of neighboring homes, sometimes even buying homes to quiet neighbors' objections. Wisconsin landfill operators also send neighbors water-table monitoring reports and must maintain the landfill 40 years after closure. The process seems to be working. Of the 33 landfills sited since the board's creation in 1984, only 3 have gone to arbitration.

Arguments based on sheer economic efficiency no longer wash in this country—all to the good. But that doesn't mean that economics can or should be thrown out the window. If the choice were simply landfills versus recycling, recycling would be the clear winner. But when you factor in the higher cost of additional recycling, it seems only sensible to realize that both recycling and landfills have their place in the socioeconomic environment.

Society has not failed our children.
The public schools have failed the children.

Excuses, excuses

BY THOMAS SOWELL



Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

"THE WORST continued to worsen," John Kenneth Galbraith said, in his entertaining account of the stock market crash of 1929. Unfortunately, that also applies to American education today.

Recently released statistics show that American high school students have now reached an alltime low in their verbal scores on the Scholastic Aptitude Test, taken by more than a million young people preparing to go on to college. Looking back over the past 30 years, the highest SAT scores were reached in 1963, the entire decade of the 1970s saw declines every year, and the minor improvements of the 1980s never reached the levels achieved 20 years earlier.

Now the 1990s have begun with a new decline to a record low. The worst continues to worsen.

With years of experience in dealing with bad results, the educational establishment has become expert at explaining them away. The first line of defense is that the results don't mean anything. A favorite variation is that American colleges are now providing "access" to so many "disadvantaged" students that of course the average scores of those applying to college are a little lower.

Unfortunately for this argument, test scores have been declining *at the top*. Twenty years ago, more than 116,000 students scored above 600 on the SAT (out of a possible 800). Today, with slightly more students taking the test, fewer than 75,000 score that high. In math, about the same proportion score above 600 as in 1971. However, we must remember that 1971 was not a golden age. The decline was already under way for several years by then.

When declining results on a wide variety of tests cannot be talked away, educators then argue that this shows a need for more money to be spent on the public schools. Thus the tables are turned and "society" is put on the moral defensive for having "neglected" the education of the next generation by not "investing" enough in their education, condemning them to "overcrowded classrooms" and the like.

In reality, the U.S. spends more money per pupil than most other nations, including nations whose youngsters consistently outperform ours on international tests. We spend more money than Japan, for example, whether measured in real per-pupil expenditures or as a percentage of our gross national product. We have fewer pupils per class than Japan, and in mathematics our classes are less than half the size of Japanese math classes. The only thing we don't have are results. American students have come in last in international math tests.

"Society" has not failed its children. The public schools have failed. That is what all the clever evasions and distractions seek to conceal.

There is really nothing very mysterious about why our public schools are failures. When you select the poorest-quality college students to be public school teachers, give them iron-clad tenure, a captive audience, and pay them according to seniority rather than performance, why should the results be surprising?

Money is not the problem here, either. Better-qualified people become private school teachers at lower salaries. The crucial problem is with the filter through which the overwhelming majority of teachers pass—education courses. Mediocrity and incompetence pass readily through such filters, but education courses repel the more able and intelligent college students. Paying higher salaries to the kind of people who emerge from this process only makes mediocrity and incompetence more expensive.

It is not simply the dullness or the shallowness of education courses that is crucial, nor is it simply the academic deficiencies of the people who choose to take these courses. Rather, it is the fatal attraction of *nonacademic* projects to people for whom academics have never been a source of achievement or pride. Throughout this century, there has been an ongoing struggle between laymen trying to focus the public schools on teaching academic subjects, while the educators have increasingly gone off into the wild blue yonder of endless nonacademic fads.

While students in Japan are studying math, science and a foreign language, American students are sitting around in circles unburdening their psyches (and family secrets) in a wide range of psycho-babble courses called "affective education." What with "nuclear education," multiculturalism, environmentalism and a thousand other world-saving crusades, our students are learning to "express themselves" on all sorts of issues for which neither they nor their teachers have even the rudiments of competence.

It is going to be difficult to get teachers who are even academically oriented, much less academically able, as long as education courses are the legally mandated filter through which the vast majority of teachers pass. Such courses are legal prerequisites solely because of the political muscle of the education establishment, whose top priority is preserving the jobs of its own. Forty million American school children are thus sacrificed to preserve the jobs of fewer than 40,000 professors of education. That's more than a thousand youngsters sacrificed for every education professor.

Chevron and Amoco plan to develop Soviet oilfields. One company has it much easier than the other.

Caught between the republics

By Peter Fuhrman

IN PRE-COUP June—which is eons ago in Soviet terms—Amoco won a high-profile tender with Soviet authorities to develop an offshore reserve of 2 billion barrels or more of crude oil in the Caspian Sea. Amoco's agreement followed on the heels of a proposed joint venture deal between Chevron and Soviet authorities to pump crude from onshore fields along the northern rim of the Caspian.

Final negotiations on both these deals were moving ahead, in fits and starts. Then came the mid-August coup. The breakdown of central party power since then has treated the two U.S. oil companies most unequally.

Chevron looks (for now) to have the better position by far. Its production could begin within a year from the Tengiz field near the hamlet of Prorza in the republic of Kazakhstan. Tengiz may have as much as 7.5 billion barrels of commercially recoverable reserves, extractable at a rate of 1 million barrels a day.

The leader of Kazakhstan, Nursultan Nazerbayev, was forthright in condemning the coup and renouncing the Communist Party. Result: His relations with Russian President Boris Yeltsin couldn't be warmer, and that is good news for Chevron. Why? Because there is no direct route for the oil from Kazakhstan to the West, except through the Russian republic. Good relations with Russia should make it easier for Chevron and its Kazakh partners to buy access to the main Russian pipelines or to swap Tengiz field's crude for Russian crude that would be sold to the West.

Since the coup, Kazakh President Nazerbayev also told U.S. Secretary of State James Baker that he has "full confidence" in Chevron. A final agreement to initiate production seems imminent.

What of Amoco? In contrast to Chevron, it is on the horns of a very tricky dilemma.

Amoco holds drilling rights in the offshore Azeri field, 60 miles southeast of Baku, in the Caspian Sea *(see map)*. Its problem is this: The Azeri field belongs territorially to the republic of Azerbaijan. Ayaz Mutalibov, Azerbaijan's president, denounced Gorbachev during the coup and supported the military junta. He has tried to backtrack since, but Mutalibov is a communist with Shiite Islamic credentials who can sound like a cross between Brezhnev and Ayatollah Khomeini. Mutalibov is persona non grata among Yeltsinites in Moscow. As long as he is in charge, Amoco is caught between the devil and the deep blue sea.

Officially, Amoco is putting a brave face on things. The changes in the Soviet Union "have made us even more encouraged to proceed" with development of the Azeri field, says Peter Kennel, Amoco's vice president in charge of international negotiations. But scratch a little deeper and one senior Amoco executive privately says, "God alone knows how we'll work this one out."

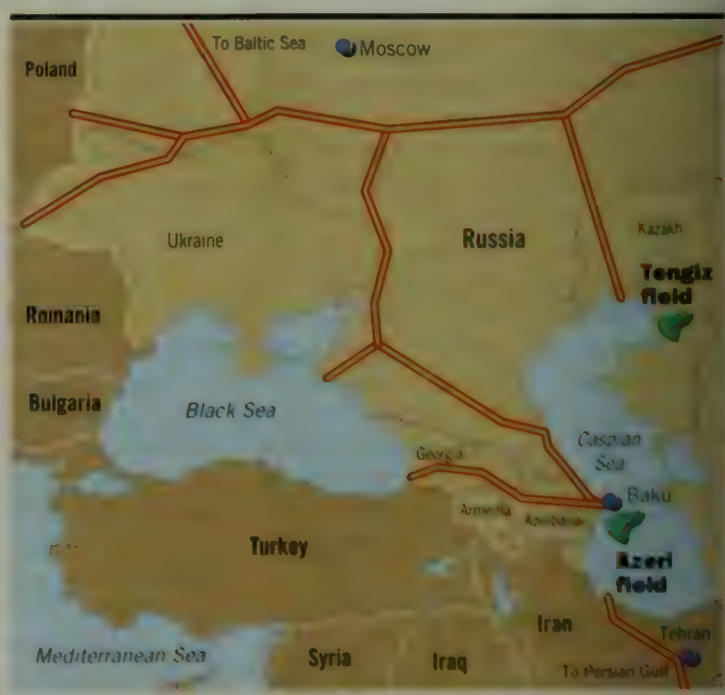
The Soviet oil ministry, once the key player in negotiations and Amoco's ally, has lost virtually all of its authority. Local power over the Azeri field now rests with the Azerbaijani government, which likes to think of itself as an oil-rich emirate in the making. In exchange for the drilling rights, the republic wants to retain at least a 50% stake in the Azeri field.

Amoco has four possible routes to get the oil to market. Each is fraught with problems.

Option one: The Azerbaijanis have talked about piping oil out through Iran. The Iranian national oil company has already done some joint exploration work with the Soviets in the Iranian sector of the Caspian and is eager to extend this exploration into Azerbaijani waters. For a fee, the Iranians could make their pipeline available for crude from the Azeri field.

But dealing with Iran is a problem for an American company. This looks to be one reason Amoco has been talking since this summer with Britain's BP and Norway's Statoil about taking a share in the Azeri venture.

Russia gets on with Kazakhstan, so Chevron will be able to ship oil from its Tengiz field to the West via Russian pipelines. But Azerbaijan and Russia don't get along, blocking Amoco's Azeri field.



Option two: Azerbaijan is linked by an oil pipeline to the Black Sea via Armenia and the republic of Georgia. But this pipeline has been shut down as a result of pogroms in Azerbaijan's Nagorno-Karabakh region and unrelated civil unrest in Georgia. The pipeline also suffers from technical problems, especially with pumping.

Azerbaijani President Mutalibov recently visited Georgia to try to build friendlier ties. And late last month the Azerbaijanis and Armenians held talks aimed at restoring peace to the Nagorno-Karabakh area. But until long-simmering ethnic rivalries end, Amoco will not risk sending Azeri field oil out via this route.

Option three: The Russian republic's pipelines. Can Amoco broker a cooperation and revenue-sharing agreement that ties both republics into the project? Negotiations have yet to begin. But Amoco and Azerbaijan can't count on Russia's easily providing pipeline capacity or swap arrangements.

Some Azerbaijanis think they have a trump card. Azerbaijan is home to the factories that produce over 60% of the Soviet Union's oilfield equipment. Most of that equipment ends up in Russia, producer of 80% of the Soviet Union's oil. The equipment isn't very good, but for now it may be the best that Russia can afford and may act as an incentive for the two republics to work together.

Option four: Amoco could build its own pipeline from the Azeri field to, say, the Black Sea. But the Georgians and the Armenians, across whose land such a line would be built, are often at daggers drawn with the Azerbaijanis. Moreover, building a pipeline would add many billions to the estimated $3 billion to $5 billion that may be needed to get the Azeri field running at its full output of maybe as much as 700,000 barrels per day.

Over the decades the international oil companies have proved themselves deft at negotiating with difficult princes, tribal elders and party hacks. But cutting a deal involving Azerbaijanis and Russians, along with perhaps Georgians, Iranians and Armenians, will sorely test Amoco's skill. For Chevron, by contrast, the road that lies immediately ahead looks far less rugged. ■

Vernon Loucks made headlines over reported federal investigations into his Baxter International. Funny how little attention the media paid to his effective and innovative management style.

Unwelcome attention

By Christopher Palmeri

VERNON LOUCKS HAS been in the news lately—in ways he'd rather not be. In two front-page stories, the latest in April, the *Wall Street Journal* reported that his Baxter International Inc. was under investigation by federal authorities for bribery and for violating the antiboycott statutes of the Export Administration Act.

"If you read the papers, they would have us guilty already," says Loucks. The stock market has already given its verdict: nothing substantive to the reports. Baxter shares hardly budged on the news. This in a scandal-sensitive market where Salomon shares lost well over $1 billion on news that it tried to rig federal Treasury bond auctions.

The stock market was simply confirming what the health care industry already knows: that Vernon Loucks has built Baxter from a small company into an $8-billion-a-year giant in the business.

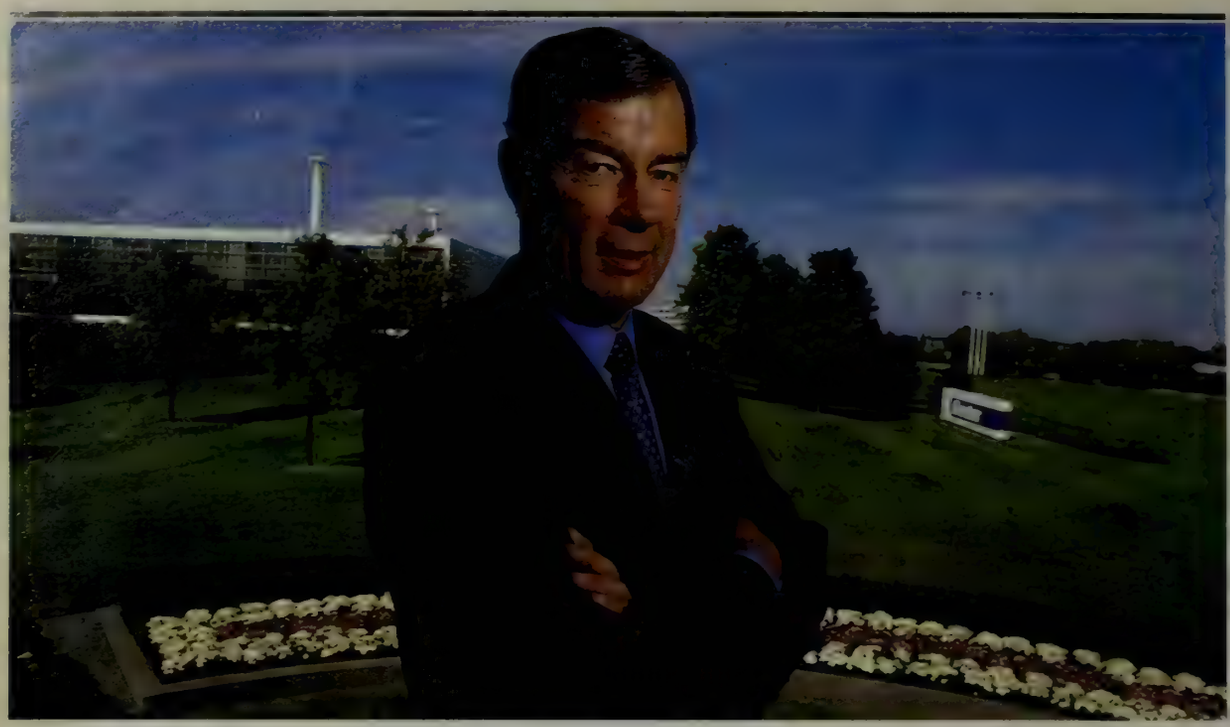
Whatever becomes of the probes, there is no gainsaying that Loucks has done an impressive job of building a company and keeping it strong in the face of severe challenges. When Loucks, now 56, was promoted to chief executive in 1980, the company was the leader in several medical supply specialties like intravenous products and dialysis equipment. But in 1983 Congress instituted price caps on Medicare reimbursements. Baxter's profits dropped sharply in the mid-1980s, and the stock lost 60% of its value.

Baxter might have sold out. Or it might have sat around hoping things would improve. Loucks chose to take the offensive. In 1985, after a prolonged takeover battle, he had Baxter pay nearly $4 billion in cash and stock for American Hospital Supply Corp., a company nearly twice Baxter's size.

As is well known, few mergers work well, and none smoothly. This one took its bumps. "Unless you're running a business, you have no idea of the complexities of moving people and capital," Loucks says. Because he did not move as fast as he now admits he should have, the merger did not immediately yield the efficiencies it should have done. But better late than never: By the end of this year Baxter will have sold off or closed 15 of the 22 plants scheduled to go by 1993—about 25% of all its manufacturing floor space.

In pursuit of efficiency and better service, Baxter has reduced its purchasing locations from 16 to 1; companies distributing their products through Baxter will now have their orders filled from one ultraefficient location. Likewise, credit collection has gone from 12 locations to 1, streamlining systems for both Baxter and its clients, the hospitals.

Loucks has pushed Baxter into high-tech products like a genetically engineered blood product to treat hemophilia and an ambulatory dialysis system that uses the patient's own abdominal cavity in place of a traditional dialysis machine. The latter is already a $500 million business with profit margins in the neighborhood of 30%. It's expected to grow at 15% a year. Other product innovations include a needle-free syringe for drawing fluids and a new disposable bed-



Steve Leonard

Baxter International Chairman Vernon Loucks **"Don't count me out," he says. "I will be here when this is all over."**

pan liner made from recycled telephone books.

Even in its old hospital-supply business, which still accounts for 50% of revenues and 30% of operating income, Baxter is an innovator. Its ValueLink service, in which Baxter contracts with a hospital to deliver its supplies in a just-in-time fashion, has already replaced warehouses and supply staffs at 18 hospitals nationwide. Baxter benefits by getting almost all of the hospital's business, as well as a good idea of what demand will be for the products it makes and distributes. "There's at least a dollar of hospital overhead for every dollar of supply costs," says Loucks, "so we can get better-margin products in there and the hospital still comes out ahead."

Revenues at Baxter's Caremark division, which delivers supplies and medicine to patients at home, are growing at over 20% a year and should come close to $800 million in 1991. "We've got ten times the market share of the next guy," Loucks says.

Baxter is not afraid to break with tradition. Baxter's prescription service division circumvents pharmacies by delivering mail-order drugs to corporate, union and HMO health plan customers. It already has the number two position in its field after Medco Containment Services (FORBES, *Apr. 15*). The division, which Baxter started from scratch in 1985, should be a $1 billion business for the company by 1993.

Loucks is understandably proud of what he has done. Says he: "My employee number was 680, and we're now a company of 63,000 people." But what of those federal investigations? There may be less to them than meets the newspaper reader's eye.

One investigation involves allegations that Baxter International may have violated antiboycott statutes by quitting Israel in exchange for gaining favors in the Arab world. The other involves allegations that Baxter paid doctors a fee to help get some business—in effect, offering kickbacks.

Loucks categorically denies all allegations, but the media have paid scant attention to his denials.

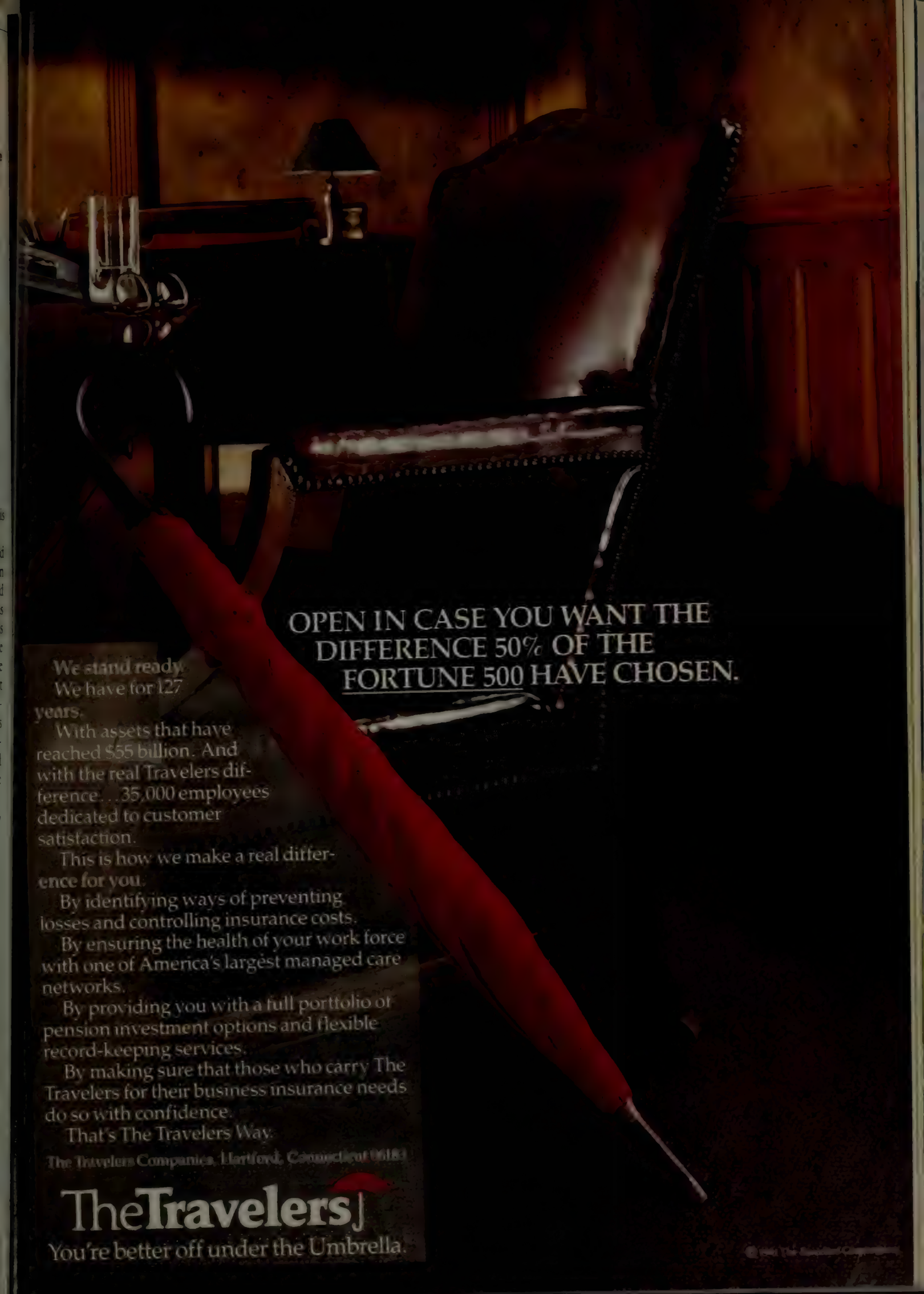
What's the truth? Caremark is under investigation by the Office of the Inspector General of the Department of Health & Human Services for allegedly violating Medicare regulations that prohibit suppliers from paying money to doctors to get business. Loucks acknowledges that Caremark pays fees to doctors ranging from $12 to $150 a week for monitoring the blood records and nutrition of patients receiving Caremark treatments at home. But he explains that the payments are meant as an incentive to doctors to move patients out of hospitals, where the doctors make more money. The system also takes some of the liability off Caremark.

"The [Medicare] law is not very well written," says Loucks. "There is a very fuzzy set of issues here."

What of the charges that Baxter and its executives bribed Saudi Arabian businessmen, sold a plant in Israel and contracted to build an intravenous products plant in Syria (the plant has been canceled)—in violation of the antiboycott statutes? Loucks says the Israeli plant was sold because it wasn't meeting Baxter's financial expectations. As for the plant in Syria, Loucks says Baxter simply responded to Syria's open request for a proposal, and won the contract. "We could have built it anywhere," Loucks says.

Perhaps what made Loucks so tempting to the investigators and to the media is his background: Yale, first lieutenant in the Marine Corps., Harvard M.B.A., friend of President Bush. Joining Baxter in 1966, he rose swiftly through its international division. People like this make tempting targets to business bashers.

At any rate, Loucks has little but good news to report on the business front. In the six months ended June 30, operating income was 22% higher than last year's period (excluding a restructuring charge) on an 11% increase in sales. "Sales are up, margins are up," says Loucks. "We're well on track." Analysts who follow Baxter think it will earn around $2.35 a share next year, up from $1.65 last year. "Don't count me out," says Loucks. "I'll be here when this is all over." ■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Triton Energy has hit it rich in Colombia, but it's not so fortunate in its choice of chief executives.

Lucky Bill Lee

By Toni Mack

WALL STREET hasn't fallen so hard for an energy stock since the dizzy days of the oil boom a decade ago. Shares of Dallas-based Triton Energy Corp. were 4 last December; this summer they hit 49⅛.

Lately the stock has eased to around 42, which still gives Triton a market capitalization of $1.2 billion. Pretty rich for a $249 million (revenues) company that eked out a $6 million profit in fiscal 1991—and that entirely from one-time asset sales.

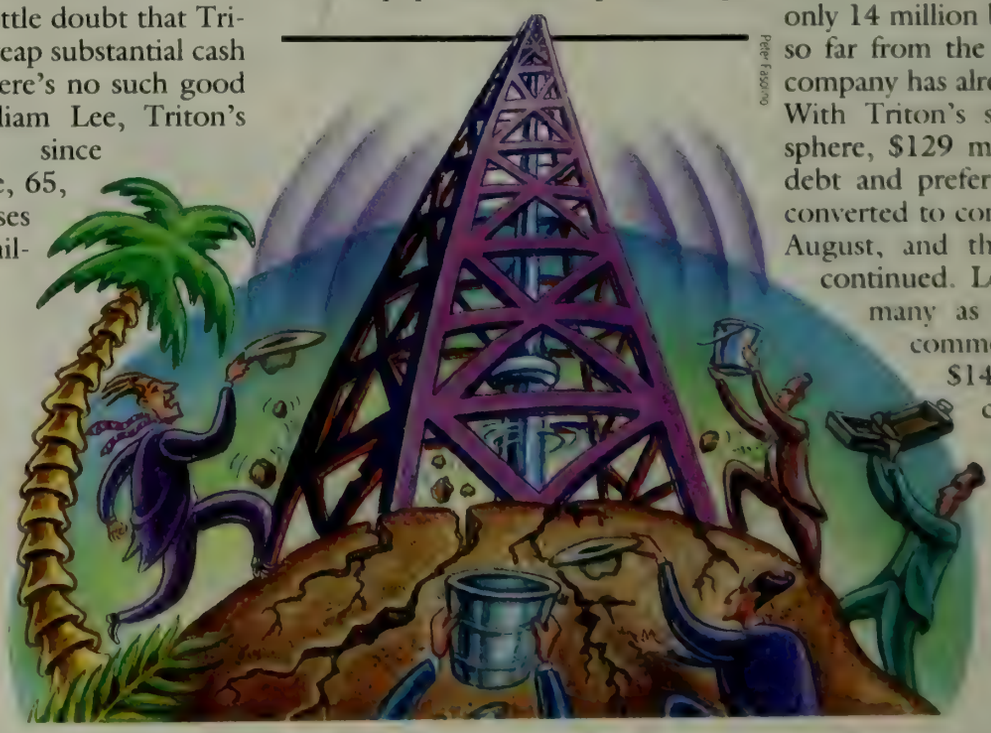
The fuel for this jet-propelled ascension is reports about Triton's stake in an oilfield called Cusiana, in the foothills of the Andes, 110 miles east of Bogotá, Colombia. After drilling two wells into Cusiana, British Petroleum, the field's operator, pronounced it "a world-class discovery." Analysts reckon that means Cusiana contains at least 1 billion barrels of oil. With Triton stock at 42, investors are in effect betting that Cusiana contains around 3 billion barrels. No one will know for sure until appraisal wells are completed a year or two hence.

While there's little doubt that Triton will one day reap substantial cash from Cusiana, there's no such good news about William Lee, Triton's chief executive since 1966. Under Lee, 65, Triton ran up losses totaling $147 million in the five fiscal years ending May 31, 1990. Says Alan Gaines, the well-respected, New York-based money manager: "Bill Lee is not a guy I'd like to see running an oil company I had invested in."

Triton's former controller, James Janacek, is suing Lee in a Texas state court, charging conflicts of interest and abuses like billing personal yacht charters to the company. He also accuses Triton of bribing foreign officials and Lee of having Triton trade securities so as to enhance his personal portfolio. Triton calls the suit, which goes to trial next month, "totally without merit."

Maybe so, but eyebrows were raised when Lee steered Triton into the aviation business four years ago, convincing the board to pay some $2 million to buy an aircraft maintenance and fuel operation called Jet East. The company, says a former executive, "was losing money every month." Jet East also leased facilities from Aviation Properties, Inc.—a company 63% owned by Bill Lee and another Triton director, Wellslake Morse.

Later in 1987 Triton bought Aviation Properties for $8.8 million, paying nearly $3 million in Triton stock to Lee and Morse. After the purchase, Aviation Properties continued to lease equipment from partnerships mostly owned by the pair and advanced hundreds of thousands of dollars to the partnerships.



Peter Fasano

Triton's president, Thomas Goff, had been with the company since 1968. He resigned in 1987 partly because he didn't think Triton knew enough about aviation to get into it.

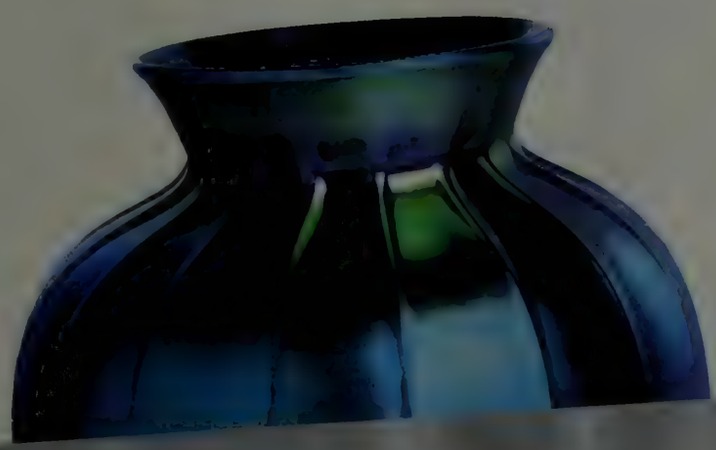
He was right. Far from the rosy predictions made to justify the acquisition, Aviation Properties racked up negative cash flow—before debt service—of nearly $1 million in its first year under Triton. Yet Lee kept buying more aviation operations; by fiscal 1990 they accounted for 43% of Triton's revenues.

Under pressure from Triton's mounting debt, Lee began to divest some of the aviation operations last year. But even after asset sales, Triton still has aviation interests worth roughly $35 million, including 28% of a company that lost $6 million for Triton in fiscal 1991.

Except for the resignation of Thomas Goff, Triton executives and board members have rarely challenged Lee's wishes, even though he owns only about 2.4% of the 28.7 million common shares. In October 1987 the company granted Lee a loan of more than $4 million. A Triton spokesman says he doesn't know why Lee wanted the money. The company, now in registration for a stock offering, declines interviews.

In any case, things are going very much Bill Lee's way these days. With only 14 million barrels of oil booked so far from the Colombia find, the company has already reaped rewards. With Triton's stock in the stratosphere, $129 million in convertible debt and preferred stock had been converted to common by the end of August, and the conversions have continued. Lee is now selling as many as 3.45 million more common shares, for around $140 million in proceeds. If he sells all the shares, debt could fall to as little as 9% of capital.

Bill Lee may not be a great manager, nor the most respected of Texas oilmen. But he sure is lucky. ■



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When he got control of Dole six years ago, financier David Murdock had real estate and food on his mind. So far he has been half right.

A new kind of cash cow

By Thomas Bancroft

Luis Diego Ramos

THINK OF Dole Foods, and you probably think of pineapples. Or real estate. But what about bananas?

This $3 billion (revenues) Los Angeles-based food company sells more than 100 kinds of fresh fruits and vegetables, packaged foods, juices and nuts. It also owns extensive real estate holdings in Hawaii and on the mainland.

Yet the real driving force behind five years of steady growth and high profits has been bananas. Global demand for the tropical fruit is at an alltime high.

Last year the world ate an estimated 16 billion pounds, or about 42 billion bananas. Worldwide volume is expected to reach close to 18 billion pounds by next year with the opening of trade barriers in Europe, compared with 13 billion pounds in 1987.

Good news for a company that controls an estimated 22% of the global banana market—behind number one ranked Chiquita, with a 33% share. Last year, according to Michael Branca at Mabon Securities, nearly a third of Dole's sales came from bananas—while pineapples made up less than 10%. First-half earnings this year were up 40%, to $79 million, much of the gain tied to an increase in worldwide banana prices. While Dole doesn't release the figures, Branca estimates that operating margins on bananas average 8% to 10%. Probably 40% of the food division's operating profits of $205 million last year came from bananas.

David Murdock got his 23% controlling interest in Dole by merging it with a company he controlled, Flexi-Van, a container company. Using Flexi-Van's abundant cash flow, Murdock nursed Castle & Cooke, as Dole was then called, back to health, returning it to profitability in 1986 after a $37 million loss in 1985. In 1987 Murdock sold most of Flexi-Van to Itel for $215 million and spun off the rest in a rights offering to Dole's preferred and common shareholders for $160 million.

Since taking over Dole, Murdock has poured over $700 million into

Dole banana operations in Costa Rica
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Dole's top banana and largest shareholder, David Murdock

Riding a big yellow wave.

improving the food division's operations. A good portion of the money went for new technology and equipment, including refrigerated container ships that allow the fruit to ripen during the voyage from the countries where they are grown to places like Europe and Japan. Dole currently uses a fleet of 49 container ships, 12 of which the company owns. It charters the rest, as much as three years in advance of actual use.

Dole's bananas are grown mostly in Costa Rica, Honduras and the Philippines. Which market they go to can vary. Most of the bananas for the European market, for instance, probably come from Costa Rica, but what Branca calls the "optimal source country" could change to, say, Honduras, at any given time—depending on pricing, fuel costs and currency valuations.

Bananas were probably not the first thing on David Murdock's mind when the 68-year-old West Coast financier gained control of Dole, in 1985. Murdock had actually put the food division on the block in August of 1990, pulling it off the market in December when the banana markets began to get hot.

He apparently wanted to concentrate on Dole's real estate division, but realized the business could not do as well without the food division's support. Dole's holdings include 130,000 acres in Hawaii, 10,000 acres in California and 9,000 acres in Arizona.

Sometimes the best deals are the ones you never do. Earnings on the food division have climbed 60% since 1987, while the real estate division has been mostly flat. Although Dole's real estate division earned $24 million in 1990, it reported losses of $13 million in the first half of this year because of startup costs on two Hawaiian resorts. The food division has provided the cash that keeps the real estate going.

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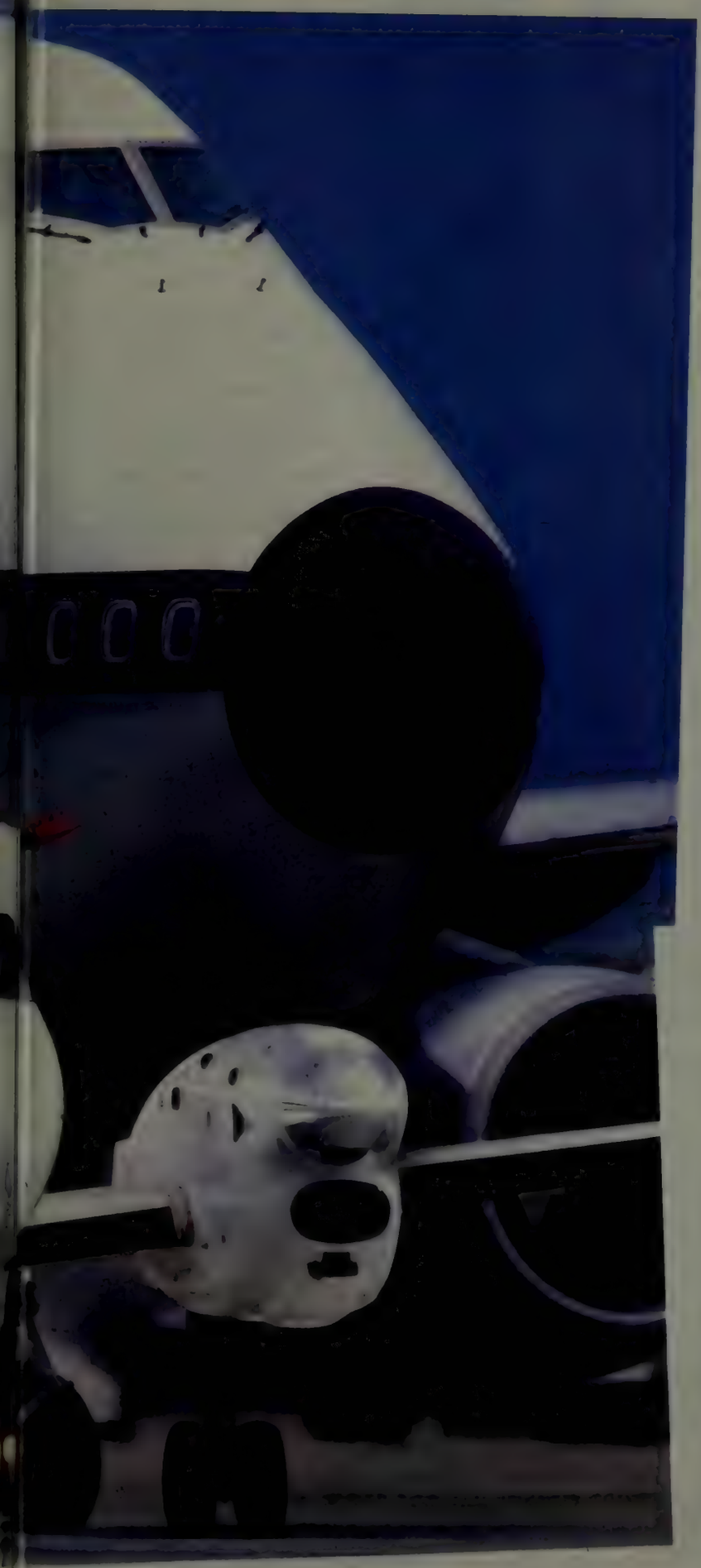

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If you are thinking of using a home equity loan to finance a trip abroad or a new car or boat, you had better act fast.

Endangered deduction

By Janet Novack

EQUITY CONTINUES to pour out of America's homes and into cars, fur coats, vacations and other consumables. Between 1987 and the end of 1990, outstanding second mortgage debt—which includes traditional second mortgages as well as home equity lines—nearly doubled, to $330 billion, according to SMR Research Corp. The big growth was in home equity lines of credit, which borrowers can draw on for any purpose.

If all these loans were being used to improve homes, we would be a nation of carpenters. But they're not. Only about a third of the money borrowed through new home equity loans is being used to finance home improvements. Another third goes to pay off existing consumer debt, with the balance used to finance new consumption. About 10% of equity loan proceeds is used to buy cars.

There are at least three reasons home equity lines have become so popular. One: The rates are favorable. Two: Home equity is a huge source of borrowing power. Three: For taxpayers who itemize deductions, a home equity loan is a way to make Uncle Sam share in the cost of a family's spending.

The 1986 tax reform legislation phased out the deductibility of interest on consumer loans. But there's an exception: Interest on up to $100,000 in debt secured by a home is deductible, no matter what the money is used for. So consumers have, quite predictably, started borrowing against their homes when they need money. Taxwise, they'd be foolish not to.

Lenders have certainly been pushing the tax-deduction angle. A recent ad from C&S/Sovran Corp.'s Sovran Bank proclaims: "Get a TaxSmart Auto Loan Now And The Government Could Cover At Least One Of Your Payments This Year." Sovran collateralizes its TaxSmart loans with the car and also takes a lien on the borrower's house. The house lien makes the interest tax deductible, though not necessarily a bargain. The bank charges car loan interest rates rather than the lower home equity rate. But Sovran will surrender the house lien on request.

A tax gimmick? Representative Frank Guarini (D–N.J.) thinks so and has introduced a bill to ban it. House Ways & Means Committee Chairman Dan Rostenkowski (D–Ill.) complains: "There is a suggestion that home equity loans are being used increasingly by savvy consumers to restore the consumer interest deduction [eliminated by tax reform]." He warns that "aggressive advertising by banks" could force Congress to act.

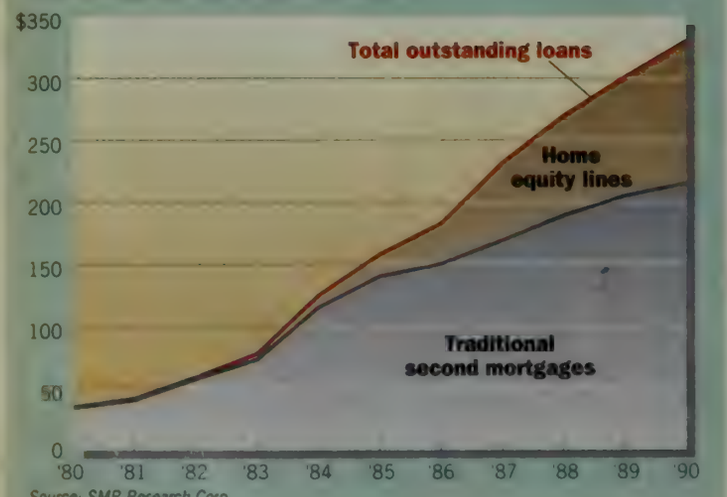
Rostenkowski hasn't yet moved to limit the deduction for second mortgages and equity lines. But some in Congress obviously would like to. The deduction costs the Treasury perhaps $5 billion a year. Limiting it would likely raise only a fraction of that, since homeowners might take out bigger first mortgages. But revenue raising isn't the only goal of taxation these days: Equally important is making sure that nobody seems to be getting away with anything. Only 23% of taxpayers deduct mortgage interest, and the better-off are more likely to do so.

Surprisingly, the real estate lobby might support some limits. "As people tap into equity to pay for consumable goods, their ability to move up to the next level of housing is restricted," says Stephen Driesler, chief lobbyist for the powerful National Association of Realtors. Therefore, Driesler says, while the NAR will fight to defend the deductibility of interest on a mortgage to buy a home, it probably wouldn't object if Congress limited home equity deductions to loans for home fix-up, medical expenses and college education.

"Deductions are an endangered species," says David Berenson, Ernst & Young's national director of tax policy, "and home equity loans are at the top of the endangered list." Gather ye general-purpose home equity loans while ye may.

Hocking the homestead

Second mortgage outstanding loans ($billions)



Source: SMR Research Corp

The big growth has been in home equity lines of credit. Line holders are given checks that they can use to borrow against the equity in their homes. Another $75 billion or so in equity lines has been approved but not yet drawn down.

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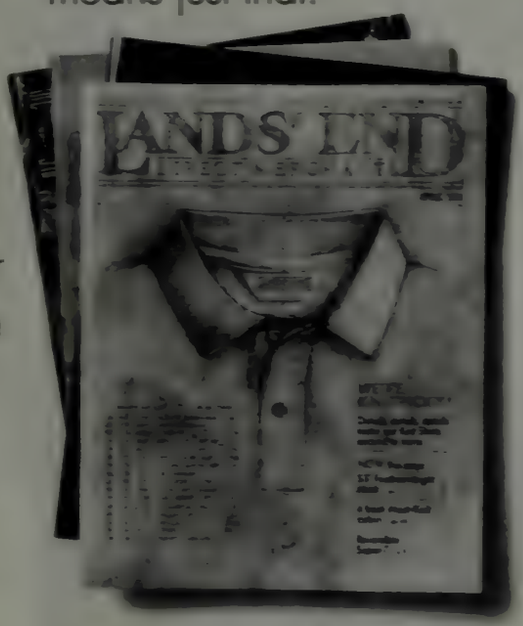

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Four years ago Phillips-Van Heusen's Lawrence Phillips looked into the future of the department store and did not like what he saw. Unlike most apparel makers, he did something about it.

"We're still hungry"

By Gretchen Morgenson

Jonathan Levine

Phillips-Van Heusen Chairman Lawrence Phillips
Pushcart economics applied to a $900 million business.

WHILE MANY in the apparel and retailing industries are singing the blues, 110-year-old Phillips-Van Heusen Corp., maker of Van Heusen and Geoffrey Beene men's dress shirts and Bass shoes, is burning up the track. Ten years ago the company's Van Heusen brand had just 2% of the men's dress shirt market. Rival Cluett, Peabody's Arrow had 20%. This year Van Heusen's share is expected to come in at 9%, while Arrow's should plunge to 8.5%.

The fellow responsible for Phillips-Van Heusen's growth is Lawrence Phillips, 64. Representing the fourth generation of Phillipses to run the company, he is justly proud of the union-free company's record as a stable employer in a volatile industry. "During this recession, we have never had to close a factory," says Phillips. "In fact, we have expanded capacity."

Compare this with the scene at Cluett, Peabody, which was bought by the U.S. subsidiary of Paris-based Bidermann S.A. from West Point-Pepperell in 1990. According to industry insiders, in little more than a year, unionized Cluett, Peabody has shuttered 9 of its 14 warehouses and manufacturing plants, laying off more than 2,000 workers. Having changed hands three times in the last five years, Cluett, Peabody has lost 16 top executives. At Phillips-Van Heusen, executive turnover has been zero.

Since 1987 Phillips-Van Heusen's sales have increased at a compound annual rate of 17%; earnings per share have grown at 22% a year. Despite this year's dreary retailing environment, analysts expect the company's sales to hit $915 million in 1991, an increase of 14%. Earnings should kick in at around $22 million (about $2.30 a share), up 20% from 1990.

With 17% of the domestic market, Phillips-Van Heusen's various brands and private-label goods make it the largest men's shirt marketer in America. Lawrence Phillips, a tanned, trim and chatty gladhander, has taken market share from Arrow and others by covering all the price points. He offers department store shoppers medium-priced Van Heusen, 417 and Hennessy shirts, ranging from $21 to $36. He offers an upper-scale customer Geoffrey Beene, Cezani and Etienne Aigner labels at up to $45. The com-

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Ann Stokes/SABA

In the pattern design room of an Ozark, Ala. plant
Not one plant closed, even during the recession.

pany is also the nation's largest private-label dress shirt maker, selling to retailers such as Lord & Taylor, J.C. Penney and Lands' End.

Phillips comes by his shirt savvy naturally. His great-grandfather Moses Phillips came to America in 1881, a refugee from a town called Suwalki in what is now Poland. Out of a one-room flat in Pottsville, Pa., in the state's anthracite coal region, Phillips' wife stitched flannel shirts for her husband to sell to miners. Selling two or three shirts a day from his pushcart allowed Phillips to bring other members of his family to America, and soon the operation grew to include a horse and buggy from which he sold shirts in neighboring coal towns. Sales for the company in 1881: $250.

The pushcart is long gone, but the pushcart philosophy still reigns. Phillips recalls walking through factories in his youth with his father and grandfather, helping to pick pins up off the floor. Today the company neither owns nor leases a plane, and not even the chairman travels first class.

"There are people whose companies are in Chapter 11 flying around the country in first class today," says Phillips. "We try to act as though we're still hungry."

There were lean times. Between 1985 and 1987, sales fell. Around this time, Phillips had an epiphany. He realized that department stores were changing, and not necessarily for the better. Phillips saw retailers growing more powerful, gaining an upper hand with suppliers. Yet, at the same time, stores were growing financially weaker, increasing their debt. "We didn't want to bet our company's future on the balance sheet of a Federated Stores or on the whim of a department store chairman to go to private label or switch brands," explains Phillips.

To insulate his company from such whims, Phillips did three things. He expanded his share of the private-label shirt business. He cut off the sales of slow-moving shirts to off-price retailers; this helped his brands' images, at little cost of lost profits.

Finally, to absorb surplus merchandise, Phillips opened scores of his own tastefully designed stores in the outlet malls that are mushrooming across the country (FORBES, *May 27*). Phillips-Van Heusen now sells its shirts, shoes and sweaters in its Cape Isle Knitters, Bass, Geoffrey Beene and Windsor Shirt stores nationwide.

"It took guts to do what they did in retail," says Alison Bisno, research director at Stephens Inc. in Little Rock. "It's not often a manufacturer also knows how to sell to consumers."

Besides enhancing Phillips-Van Heusen's image and margins, the stores give Phillips valuable feedback and its customers a higher level of service. Recently the company installed consumer hot lines in some of the Van Heusen and Bass stores. If a shopper finds the store to be out of his size, he can order merchandise by phone for home delivery. Since the lines were installed in May, Phillips reports "thousands of orders."

As important as its outlet stores are, the company can ill afford to alienate its department store customers by stealing their shoppers. Phillips gets around this problem by situating his outlets in vacation spots and smallish towns that are a good distance away from the nearest department store.

At the same time that Phillips was betting on the specialty retailing business, he made another gamble: In 1987 he bought the venerable G.H. Bass shoe company. Although Bass had a well-known consumer brand name in Weejuns, the company had been neglected by its corporate owner, Chesebrough-Pond's, and had bled money since 1984. Phillips paid just $63 million for Bass—$43 million below book value—in part because the company lost $47 million a year earlier. By paring down inventory, narrowing the number of shoe styles and eliminating distribution to lowbrow discounters, Phillips stopped the company's slide.

Last year the shoemaker did over $25 million in operating profit. In 1991 it will contribute roughly one-third of Phillips-Van Heusen's total revenues and perhaps 45% of overall profits.

Wall Street has applauded Phillips' handiwork. The company's stock has more than doubled since the beginning of the year, to a recent 37. Phillips, his relatives and some insiders own around a third of the company; their block has appreciated by nearly $65 million this year. Phillips-Van Heusen is trading for 20 times last year's earnings and around 16 times this year's likely net. Not cheap, but not expensive either, especially for a company whose chief executive still runs things with the mentality of its founder.

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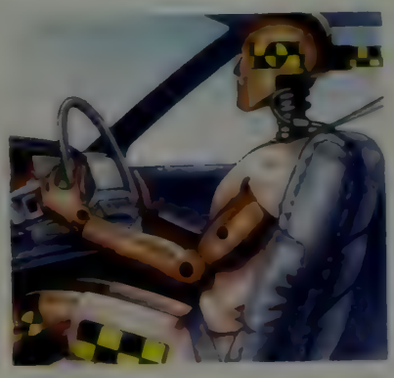

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TODAY'S FLEET COMPANY IS CHEVROLET.

Thrown out into the cold cruel world, unwanted by its corporate parent, Alliant Techsystems has to compete in a declining business, defense. Surprise: Alliant's prospects are pretty bright.

Sink or swim

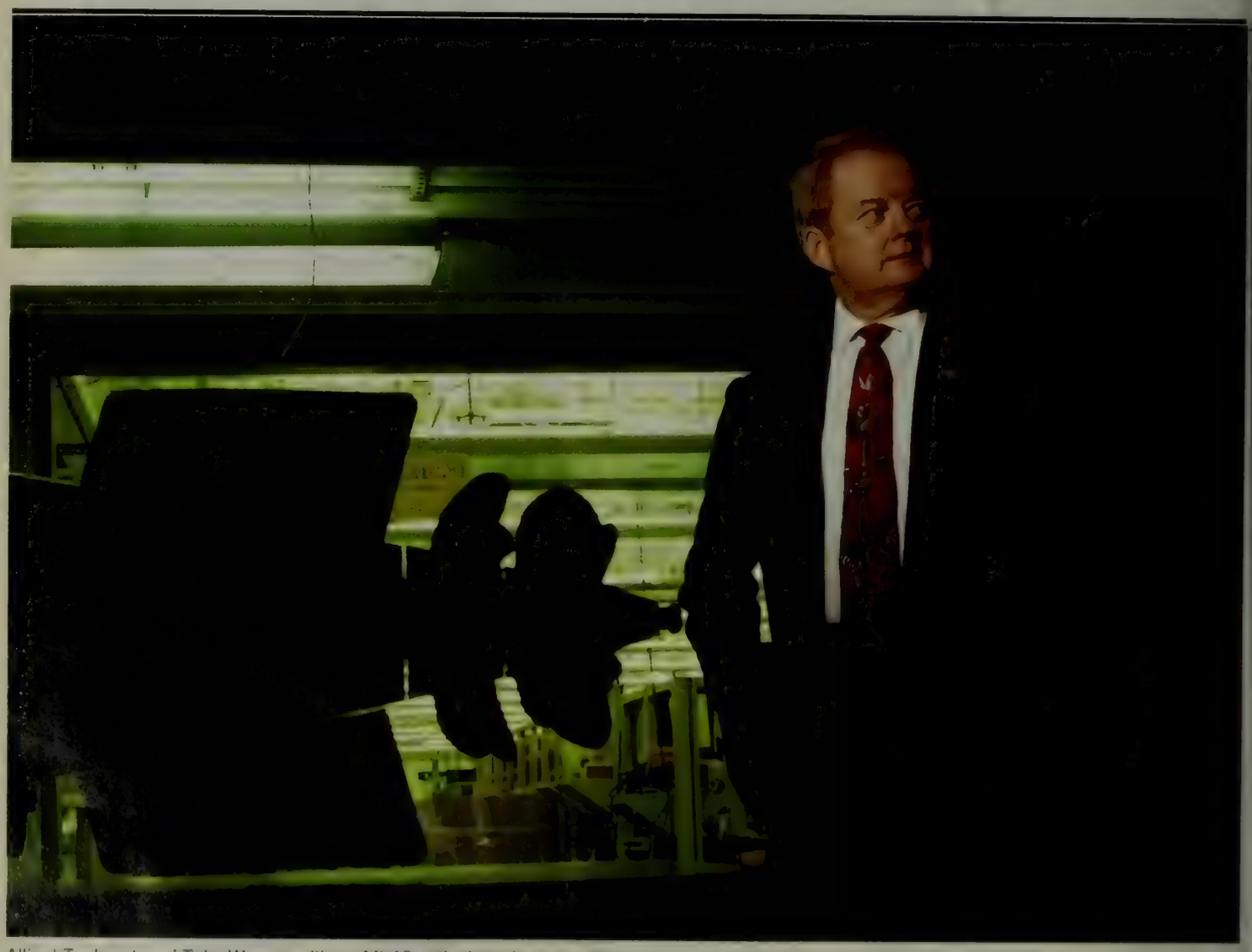
By Subrata N. Chakravarty

"THE WORLD right now is not a pacific place to live," declares Toby Warson, 53, president and chief executive officer of Alliant Techsystems.

That is, of course, a fairly predictable statement from a defense contractor trying to sell weaponry in an era of declining defense budgets. Spun off from Honeywell Inc. a year ago, Alliant, based in Edina, Minn., is the largest munitions supplier to the U.S. military. In terms of size, it is not in the same league as huge defense contractors like General Dynamics and McDonnell Douglas, but with revenues last year of $1.3 billion, Alliant is among the 15 largest direct suppliers to the Pentagon.

The 1990s are hardly auspicious times for launching a defense business. Saddam Hussein showed how dangerous a well-armed fourth-rate country can be. The disintegrating Soviet Union still possesses tens of thousands of nuclear weapons and the world's largest military establishment. But never mind: Politicians are slobbering at the prospect of cutting defense budgets, and Alliant's Warson is realistic enough to know he cannot buck the disarmament tide.

Alliant's old parent, Honeywell, had decided defense was no longer a business it wanted to be in. Unable to sell it for a decent price, Honeywell Chairman James Renier and his board spun the defense business off to their own stockholders. Renier then of-



Alliant Techsystems' Toby Warson with an Mk46 antisubmarine torpedo

When offered the job of running Alliant as a spinoff, he recalls: "My first reaction wasn't yes. I knew that it wasn't going to be pretty."

fered Warson, who had been running Honeywell's U.K. operations, the opportunity to run the new company.

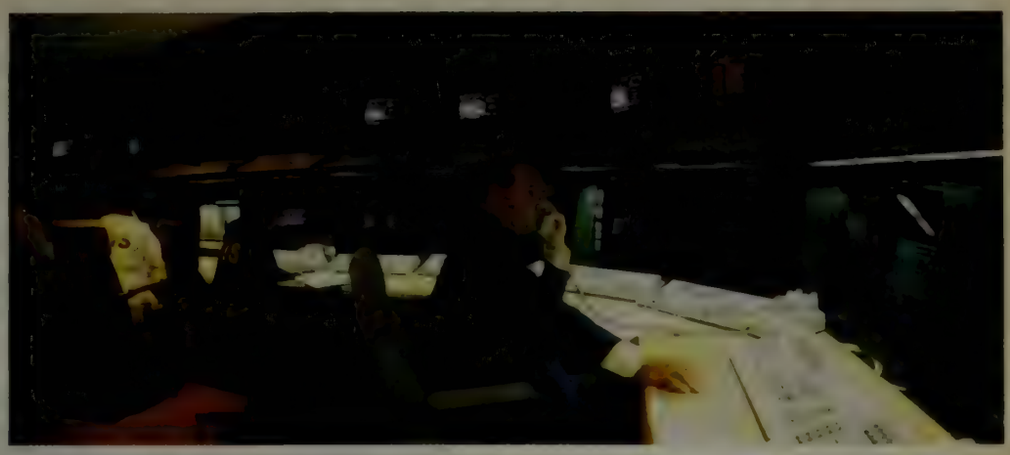
Why join a company in a shrinking industry? Warson saw the chance to build a new company tailored to the changing circumstances. He knew he had to make drastic changes. "We were starting afresh," says Warson, "so I got a lot less resistance than I ever would have if we had been part of Honeywell."

Warson quickly set to work simplifying the organization. "I inherited two groups with group staffs, and five divisions with division staffs—a whole bunch of fiefdoms," Warson says. He consolidated the staffs and reorganized the company along functional and product-oriented lines. In the process, he cut the number of employees 20%, from over 8,900 to 7,100, and reduced the number of management layers from 14 to 7—that alone will save around $25 million a year in corporate overhead.

He also had to do something about Alliant's balance sheet. The new company had to absorb $14 million in legal, accounting and other transaction costs from the spinoff, and it charged off over $30 million in severance payments. It had to borrow $165 million to reimburse Honeywell for Alliant's prorated share of debt and pay the former parent a $60 million dividend. With all these costs, Alliant was born with a rather high debt-to-equity ratio of 1.4-to-1.

With most of the restructuring costs behind him, Warson is now out beating the bushes for business and scaring up quite a bit. Although the defense budget as a whole is declining, Warson notes that the munitions budget has already seen its big cuts. From a peak of $5.4 billion in 1985, the budget has fallen to $2.2 billion, and is likely to remain at that level. Ammunition, of course, is to the military what razor blades are to shaving: disposable items that must be replaced regularly.

"If I were in the shipbuilding business, the airframe business or any platform-building business, I would be very concerned because that's where it is easiest to take big chunks of money out," Warson says. "Being in the expendables business, we're in a better relative position. A big chunk



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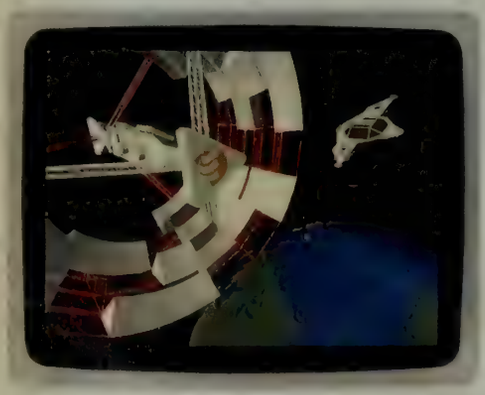

"Space Flight Fantasy 1," built using Intergraph's MicroStation software and rendered with Intergraph's ModelView software.
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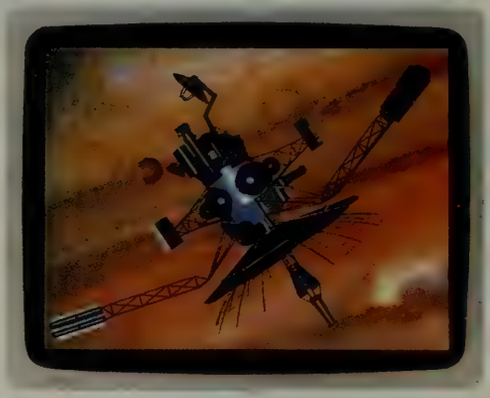

"Galileo In Orbit Around Jupiter," built using Intergraph's MicroStation software and rendered with Intergraph's ModelView software.
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of our business is in training ammunition. As the military shrinks, the remaining military will have to train to be more effective and more efficient."

Alliant's Precision Armament group is the principal supplier of shells for the 120mm gun on the U.S. Army's M1A1 tanks, with over 1 million rounds in five types delivered so far. It has improved the depleted-uranium kinetic energy shells originally designed by the German company Rheinmetall; Alliant's shell can penetrate thicker armor from a greater distance. Alliant's "silver bullet" proved devastating in the Iraq war. If, as planned, the army replaces the 105mm guns on the almost 3,300 first-generation M1 tanks in its inventory, the potential market for 120mm shells will improve significantly. Covering its bets, Alliant is also working on developing a "smart" shell to improve the capabilities of the 105mm tank gun.

"Dealing with governments is an art. Dealing with the commercial world is a different art. If we tried to compete with Toys "R" Us, we wouldn't do too well."

Alliant's Precision Armament group's 30mm bullets, used by the Air Force's A-10 ground attack aircraft, also did yeoman's work in Desert Storm. Now Alliant is working on the Sense And Destroy Armor Munition (Sadarm) sensor-fused shell for use against artillery and armor. Gencorp's Aerojet division won the full-scale development competition for the high-tech shell, with Alliant as prime subcontractor. However, Alliant and Aerojet have an agreement to share production equally.

These kinds of improved weapons are going to be in demand for the foreseeable future, even after the military scales back and cuts spending on multibillion-dollar programs.

Through its Marine Systems group, Alliant is the sole source for the Mk46 lightweight torpedo, used by planes and ships against submarines. To

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counter quieter and more capable Soviet submarines, Alliant is developing the Mk50 antisubmarine torpedo for the U.S. Navy. Low-rate production has begun, and Alliant will face tough competition with Westinghouse for future production. But because Alliant developed the torpedo, Warson is confident that Alliant can win its share of future contracts.

Warson knows his customers. He spent 20 years as a submarine officer in the Navy before retiring to join Honeywell in 1979. As a young lieutenant commander, he commanded the NR-1, the world's only nuclear-powered deep-submersible sub, and was awarded the Distinguished Service Medal, the nation's highest non-combat award, for services he will not discuss. Later, Warson commanded one of the U.S.' Poseidon ballistic missile submarines. "As a former submarine commander, I do not like the Mk50 torpedo," Warson says, with rueful satisfaction.

Alliant's Ordnance Systems group has completed full-scale development of the Paladin system, which allows self-propelled howitzers to fire at a target, move, reorient themselves rapidly and fire again from a different position. Such a system makes it harder for an enemy to destroy artillery after it has revealed its position by firing. Now you see its position, now you don't.

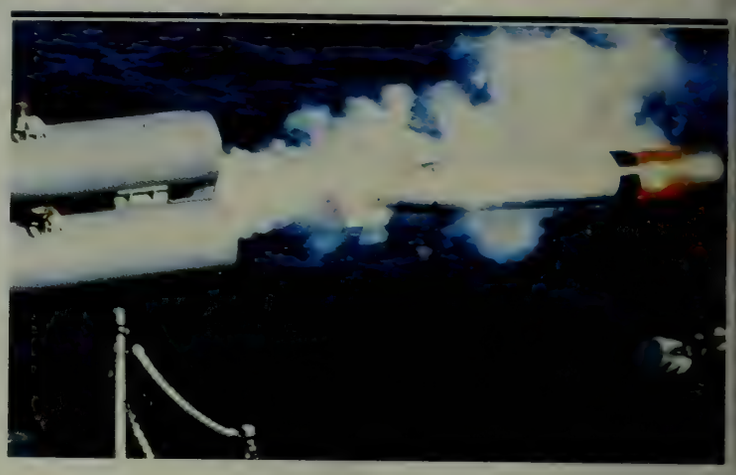
Warson is looking to overseas markets for growth. Since the U.S. does not permit the export of depleted-uranium shells, Alliant has developed a tungsten-core kinetic energy 120mm shell for the export market. The shell can be exported to any nation that uses M1A1 tanks. In the aftermath of the Iraq war, Egypt and Saudi Arabia have purchased M1A1s, and a number of nations, including Kuwait, the United Arab Emirates, Pakistan and Sweden, have asked for permission to do so.

TOP:
Sabot dropping away from 120mm kinetic energy tank shell

RIGHT:
Mk46 antisubmarine torpedo takes to the water

BELOW:
A direct hit on an Iraqi T-72 tank in Desert Storm

Building munitions that are known to be so good that they never have to be used is another means of war prevention, Warson believes.



Warson believes Alliant can generate export sales of up to $400 million per year by 1994, up from $150 million today. "We have to be flexible, because international orders are not big, long-term contracts," Warson explains. "You've got to learn how to build 50,000 [shells] instead of 5 million and do it cost-effectively, with low inventories, lots of inventory turns and just-in-time manufacturing techniques."

Warson's one major disappointment has been Alliant's only non-munitions division, Metrum Information Storage. A manufacturer of various types of sophisticated data recording and storage devices, Metrum does 50% of its business with the government. Of the businesses Warson inherited from Honeywell, Metrum has had the highest margins in the past. Now it is losing money. The principal reason, Warson says, is a problem delivering on a contract to

roduce a variable-speed tape record- for the upgrade of the P-3 antisub- arine aircraft.

Warson is not a man to let problems ke Metrum fester. At the end of ne, Warson fired the general man- ger of Metrum and took a $6.9 illion writeoff on the project. "A ear from now that operation *will* now a profit," Warson vows, grimly.

Despite heavy transaction and re- tructuring costs, as well as the Me- rum writeoff, the company earned $2.64 per fully diluted share in the most recent four quarters. With those nonrecurring costs out of the way, Prudential Securities' Byron Callan estimates Alliant will earn around $4.50 in the fiscal year that ends next March, on roughly the same sales volume.

Not surprisingly, in the post-Sovi- et-collapse stock market, Alliant's stock sells at a very considerable dis- count to the market. At 26 per share, Alliant is priced at less than six times expected 1992 earnings. This is the same P/E the market currently pays for defense stocks like Grumman and McDonnell Douglas, which are far more vulnerable to cutbacks and far more dependent on individual pro- grams than Alliant is.

• Analyst Callan doesn't think Al- liant's debt poses a serious problem. He estimates that Alliant will have free cash flow ranging from $28 million this fiscal year (1992) to $92 million in fiscal 1995. That's *after* interest payments, required debt repayments and capital expenditures, and nearly every penny of it will be available to reduce debt. With debt at $148 mil- lion, it should take only a year or two to cut the debt ratio way down. After that Warson wants to expand his busi- ness through mergers, acquisitions and funding internal ventures.

Why does he have such high hopes for a company that, after all, was unwanted by its parent? Warson re- plies: "Dealing with governments is an art. Dealing with the commercial world is a different art. This manage- ment group understands how to deal with the government. If we tried to compete with Toys "R" Us, we wouldn't do too well. It's a case of doing what you do well and doing it better than your competition."

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Korea is full of rags-to-riches stories, but none is more poignant than the tale of "hat king" Sung Hak Baik.

The 60 million hats of Sung Hak Baik

By Andrew Tanzer

ON HIS OWN at age 10, raised by U.S. G.I.s, tutored by Jewish hat merchants—the life of South Korea's Sung Hak Baik reads like an improbable Hollywood tearjerker.

Baik, 51, has a third-grade education. He speaks a sort of pidgin English that is somewhere between G.I. slang and garment district English. And he is the world's largest hat manufacturer. His Young An Hat Co. (sole owner Baik founded it in 1959) turns out 60 million hats a year. Baik produces nearly all styles, but his specialty is baseball-style caps. He is the dominant producer of licensed baseball caps bearing the logos of teams from major league baseball, the NBA, NFL, NHL and NCAA.

Hatmaking has made him rich. Baik, one of Korea's largest individual landowners, has a net worth of $300 million and mounting.

Baik generally avoids the press. In a rare interview, in his headquarters in suburban Seoul, Baik tells FORBES he has been hounded by American publishers and movie producers ever since *Reader's Digest* published a series of emotional stories in 1986 and 1990 about his 35-year search for the G.I. who saved his life during the Korean War. (The ex-G.I., David Beattie, now a night-shift janitor in Philadelphia, was located in 1989 partly through the help of an ex-FBI agent enlisted by *Reader's Digest*.)

Born in 1940 in Manchuria, Baik

Young An Hat's Sung Hak Baik **"God gave me a special chance . . . to make a profit."**

moved to North Korea with his mother in 1945, after his father died and the war ended. In December 1950, six months after the Korean War began, Baik took a boat to South Korea—by accident, he explains. He was selling candy on a refugee boat that set sail before he could get off. Baik has never heard since from his mother or relatives, who may still be alive in despot Kim Il Sung's North Korea.

After the boat dumped him near the southern tip of the peninsula, the 10-year-old Baik wandered north through the countryside, trying to make his way home. He walked into the war zone, arriving at Hongchon, a U.S. military base 65 miles northeast of Seoul, in June 1951. After surviving on food from a G.I. garbage dump, he was put to work washing clothing in David Beattie's bunker. The G.I., also an orphan, taught Baik rudimentary English.

In early 1953, Baik was severely burned when an artillery shell blew up a gasoline depot. Beattie saved his life and sent him to the hospital but had been shipped home by the time Baik was released 19 months later.

In 1955 Baik, then 15, went to work as a janitor in a factory producing caps for schoolboy uniforms. He switched to working on the factory's hat assembly line, and then in the company's hat retail outlet.

In 1959 he started his own hat company in Seoul. Working 18-hour days, Baik sold Panama and winter hats in a shop in the front during the day, produced the hats in a tiny workshop at the back at night, and slept in the store.

Baik says his first lucky break in business came in 1961. After President Syngman Rhee was deposed in a coup d'état, the government imposed restrictions on imports, including hats, to save foreign exchange. Baik says he made a small fortune with felt hats that winter. Later, after scouring the hat catalogs of American department stores such as Sears and Penney's for ideas, he began exporting hats to Japan in 1966 and to the U.S. in 1969.

Baik says he cracked the U.S. market with the help of his "Jewish stepfathers," hat distributors who imported and sold his product. "I was good at manufacturing, but I didn't

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Ki Ho Park

One of Baik's hat factories **Tutored by Jewish hat merchants, the student soon became better than his teachers.**

understand marketing," he recalls.

His first big customer/teacher in the U.S. was Abe Yeddis, who owned five hat factories near Kansas City. Baik calls Yeddis his godfather, and a portrait of the two hangs on the wall behind Baik's desk. Yeddis, now 74 and still a hat wholesaler in Kansas City, describes his adopted son: "He's the most aggressive guy I've ever seen. If I show him a cap, he'll reproduce it better than the original."

After learning about marketing and mass production from Yeddis, Baik was ready for graduate school. In 1972 he hooked up with David Warsaw, founder of Irvine, Calif.-based Sports Specialties Corp. Warsaw calls himself the father of the licensed sports and souvenir industry. That may be an exaggeration, but Sports Specialties did once have a monopoly on baseball cap licenses for all professional sports teams and is still the largest supplier of licensed caps. Its sole supplier of licensed caps, shipping 10 million caps a year for sale in 20 countries: Baik. These caps retail for $12 to $45. On a $20 cap, Baik probably receives $5.

In Warsaw as in Yeddis, Baik had chosen a good teacher. A production engineer who is now semiretired and living in Rancho Mirage, Calif., Warsaw says he taught Baik how to embroider hats, automate production and produce the best-quality baseball caps. But, says Warsaw, Baik became better than the teacher and was soon producing the finest-quality hats in the world. (Sports Specialties is today run by two of Warsaw's sons; Baik continues to ship caps to Yeddis.)

Today Baik estimates that he supplies 20% of the U.S. market of 180 million hats a year and 40% of the world licensed market of 60 million caps. With sales in 40 countries, he puts his revenues at $150 million a year from manufacturing and wholesaling (he owns parts of this business, too, in the U.S. and Canada). He also gets $50 million a year in sales from separate businesses, including plastics, fabric, gloves, supermarkets, hotels and farms, all in Korea. Baik says his pretax margin is 5% to 6%.

His money has been working as hard for Baik as he works for his money. Baik has steadily bought real estate since the 1960s, including a huge piece of land on Cheju Island, off the southern tip of Korea; this he's developing into a resort. He admits to owning $200 million in debt-free real estate. He has six factories in South Korea. But to avoid spiraling Korean wages, and to produce closer to his markets, Baik has opened a dozen hat factories overseas since the mid-1980s, in China, Sri Lanka, Bangladesh, Costa Rica, Canada and the U.S. (Arizona, Texas and Oklahama). He says he plans to add as many as ten more factories.

Every fall and spring, Baik locks himself in his office and abstains from alcohol and spicy food—to focus his attention—for a week while he designs. Almost every hat imaginable comes from his pen—baseball, golf, tennis, fishing, hunting, beach, Panama, cowboy and men's dress hats. (Some buyers specify their own designs.) He also travels abroad six months of the year.

Looking fit and tanned from a recent vacation in Hawaii, Baik rails against the greed of big Korean and Japanese businesses. "Rich people dream about 1,000 years of power, but you can't extend your life with more money," he says. "Governments don't have money nowadays, churches don't have money, only businessmen have money. We've got to help poor people."

Baik is not merely talking about helping poor people. He has funded scholarships for over 5,000 poor students in Korea, the U.S. and Costa Rica. A lifelong Presbyterian, Baik has much of the successful Victorian businessman/social reformer in him. He sets aside 10% to 30% of profits every year to donate to charities. He says he won't take his company public for fear other shareholders will prevent him from spending profits on charities.

Baik bought a 50-acre site in 1983 on the site of the U.S. G.I. camp where he spent the Korean War. There he spent $6 million to build Baik's Village, a complex including an orphanage, medical clinic, church, vocational school, homes for the handicapped and elderly—and two hat factories. He's planning similar facilities in Sri Lanka, Bangladesh and other developing countries.

"God gave me a special chance," says Baik. "I have to repay God for saving my life and giving me a big chance to make a profit."

What about all those producers hoping to put Baik's life on celluloid? Baik says he is more interested in making money to fund his philanthropic activities; Hollywood, he says, will have to wait until he turns 60, in nine years. It promises to be a flick worth waiting for.

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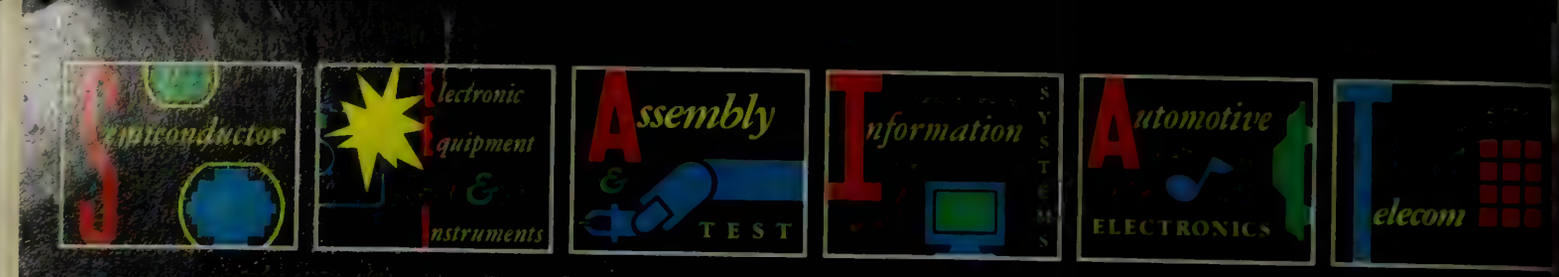

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Skilled in the ways of proxy fights and leveraged buyouts, Mike Lacey and Jim Larkin hope to forge a national chain of alternative weekly newspapers.

Boom times for New Times

By William P. Barrett

IT'S HARD to imagine how two business partners could appear to be so different. Michael Lacey, 43, is an explosive, profane fellow; this summer, after a few drinks, he actually punched out one of his employees. (The worker soon resigned.) Lacey's partner, James Larkin, 42, is calm and polished, a button-down sort given to sober talk about market strategies, technology and debt levels.

But Lacey and Larkin make a terrific combo. In nearly 20 years together, these two college dropouts have made Phoenix-based New Times Inc. the nation's largest publisher by circulation of "alternative" weekly newspapers. Besides its flagship *New Times* in Phoenix, the company owns *Westword* in Denver and *New Times* in Miami, and is moving into Dallas. Total combined weekly circulation: 410,000 and rising. The granddaddy of all alternative weeklies, Leonard Stern's *Village Voice* in New York, circulates 172,000 copies.

Reed Rahn

New Times Inc.'s Michael Lacey **An explosive editor who recently punched out one of his employees.**

With revenues in the year ended June 30 of $16 million and profits of about $2.5 million, New Times Inc. is still pretty insignificant change in the world of newspaper publishing. On the other hand, the country's 100 or so alternative papers, most of them dumped in vending boxes and distributed free, do account for one of publishing's few growth areas as many large dailies and city magazines founder from high overhead and an inability to appeal to readers.

Straitlaced Larkin, who looks after New Times Inc.'s business side, and mercurial Lacey, who runs the editorial side, are doing a good job exploiting this situation. In Phoenix, now undergoing a severe recession, *New Times* averages a thick 144 pages a week, two-thirds of that advertising. Its circulation of 140,000 (one of the highest figures in the giveaway alternative press) means it reaches 25% of Phoenix-area adults.

Even though the region is politically conservative, the paper's vaguely populist, often contrarian coverage has become must reading for local business people as well as students and aging hippies. Editorially, at least, the paper is now serious competition for the *Arizona Republic* and the *Phoenix Gazette*, both owned by Central Newspapers Inc., controlled by the family of Vice President Dan Quayle.

Each issue of *New Times* runs several long, hard-hitting feature articles, sandwiched between extensive restaurant and entertainment listings. On the advertising side, "We compete against radio," says Larkin, meaning the paper seeks the same kinds of niche audiences and advertisers. With its broad coverage of entertainment and local issues, *New Times* clips a gaggle of radio niches: classical music, country, jazz and news/talk.

Award-winning *New Times* reporters regularly expose the ethical foibles of local business people and politicians, but the paper is not always a paragon of ethical probity. Once, a reporter impersonated a journalist at another publication to get a story. On several occasions, writers have fabricated dialog, supposedly for satirical purposes. And while their papers regularly bash boondoggles, Larkin and Lacey acquired New Times' headquarters, a former blacks-only grade

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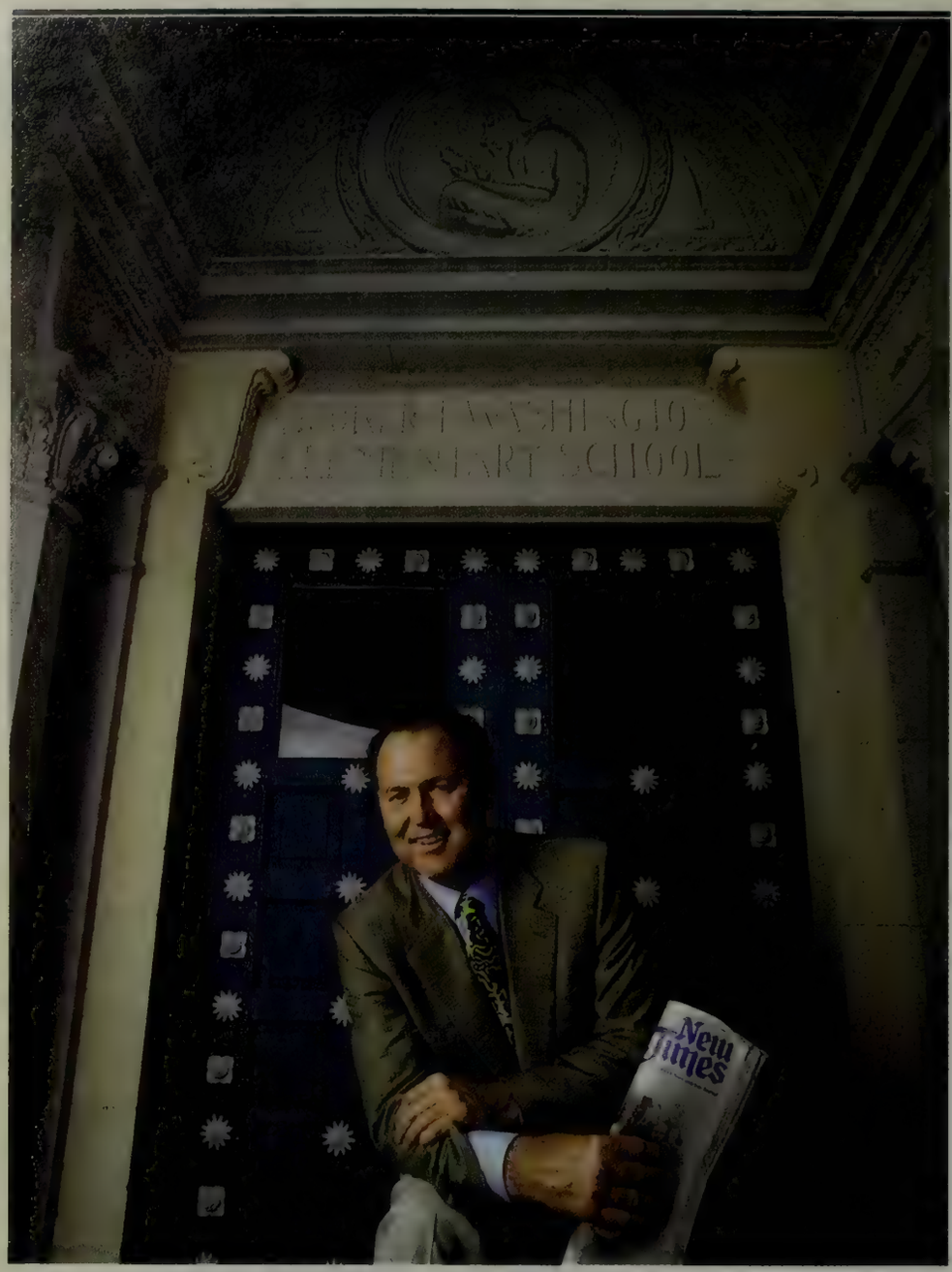

Rick Rahr

James Larkin, New Times Inc. president

At one time the company's debt-to-equity ratio was up to 48-to-1.

school, with $2.4 million of tax-exempt bond money.

Of the partners' efforts to build a chain of alternative weeklies, Larkin says: "It's kinda fun." But don't mistake him and Lacey for a pair of countercultural bumpkins. They're streetfighters who have used proxy battles, leveraged buyouts and plenty of debt to get where they now are.

Lacey, a construction worker's son, grew up in Newark, N.J. and went to Arizona State University in suburban Tempe. As a member of a campus antiwar cooperative, he was a cofounder of *New Times* in 1970. Larkin, reared in Phoenix, signed on to the business side two years later.

To raise money, New Times Inc. in 1973 sold 38,000 shares for $1 each to various Phoenix-area liberal activists. Lacey left the paper in 1975 and returned in 1977, by which time the paper was on the verge of collapse.

Sensing that a free-circulation weekly could attract a fair amount of advertising and be profitable, the budding partners decided to take over the paper. They owned little stock themselves but were able to collect enough proxies to win control in a bruising fight that featured a showdown shareholders' meeting straight out of the movies. Moments after victory, a flatbed truck hauled away the office furniture to Lacey and Larkin's new offices in Phoenix.

As the partners upgraded the editorial quality and honed their marketing skills, *New Times* prospered in the Phoenix boom of the 1980s. In 1987 Larkin and Lacey took the company private, using a loan from a now defunct savings and loan to buy back those original shares for about $1 million—a 3,000% return for original investors. Today, Lacey and Larkin each own nearly 40% of New Times Inc. and control the balance, which is held in a trust for three top executives. The company's estimated value: about $30 million.

Unwilling to cede their 100% equity control, Larkin and Lacey have relied on internally generated funds and debt to expand. Especially debt. At one point in 1988, the company had a staggering debt-to-equity ratio of 48-to-1 (strong cash flow has whittled that down to a still high but tolerable 4-to-1). In 1989 this leverage forced the partners to abandon the idea of starting a paper in Houston, which then lacked either a decent alternative paper or an effective city magazine. They also made unsuccessful runs for papers in Philadelphia and Chicago.

With their first three papers likely to throw off more than $3 million a year in cash this fiscal year—a healthy 20% margin—Lacey and Larkin have just closed their biggest deal. They shelled out an estimated $3 million for the *Dallas Observer*, an 85,000-circulation weekly whose annual revenues are also about $3 million. Most of the purchase price, about eight times operating cash flow, was covered by a loan from Security Pacific, New Times' regular lender, and the *Dallas Observer*'s own receivables.

Last year Lacey and Larkin tried to raise an $11 million venture capital pool for acquisitions. But the market for media investment pools was (and is) weak, investors wanted very onerous terms, and no money was raised. Still, Larkin is confident that over time he and Lacey will build a $100 million company, partly by buying papers from their about-to-retire founders. Even the liberals who own alternative media like to cash in when given the chance. ■

What country will you depend on next year for fuel?

Goodness, how dependent we've become on foreign oil. Who'd ever think that when it came to heating our homes and fueling our cars we'd have to rely so much on unpredictable foreign sources. Aren't we tired of being held hostage to whatever prices these countries want to charge? Isn't it time we depended on ourselves for our own fuel and energy? Well millions of Americans already are, by using domestic natural gas. In fact, virtually all of the natural gas used in North America is produced right here in North America. And it's being delivered through a natural gas pipeline that's over one million miles long. (And growing.) It's a dependable and continuous flowing pipeline network including advanced pipeline technologies. Gas is not only accessible, abundant, and efficient, but it's also the world's cleanest burning fossil fuel. And perhaps most importantly, it's ours. Truly, the energy of America.

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Former meat broker Jordan Belfort now pushes dicey stocks.

Steaks, stocks—what's the difference?

By Roula Khalaf

Geoffrey Biddle

Stratton Oakmont President Jordan Belfort
"A story only lasts for so long."

AT 23, Jordan Belfort was peddling meat and seafood door-to-door on New York's Long Island and dreaming of getting rich. Within months, he was running a string of trucks, moving 5,000 pounds of beef and fish a week. But he expanded too quickly on too little capital. By the time he was 25, he filed for personal bankruptcy.

"I was pretty talented," shrugs the smooth-talking Belfort, now 29. "But the margins were too small."

Looking for a product with more fat in it, Belfort found stocks. Steaks, stocks—from a hustling salesman's standpoint, what's the difference? Today Belfort's two-year-old Stratton Oakmont brokerage, operating out of Lake Success, N.Y., specializes in pushing dicey stocks on gullible investors. And while the product may be as perishable as meat and fish, the margins do appear quite handsome. Stratton's total commission revenues should hit $30 million this year. The firm now boasts nearly 150 brokers. Belfort, who owns over 50% of Stratton's equity, may have personally made $3 million last year alone.

Belfort's customers, on the other hand, haven't always shared in this prosperity. A year ago, even before customers began lodging complaints, the Securities & Exchange Commission started investigating Stratton Oakmont's sales and trading practices. Subpoenas have been issued to a number of Stratton Oakmont's former brokers. Belfort confirms the investigation and says the firm is cooperating fully.

The Queens-born son of two accountants, Belfort earned a biology degree from American University. After failing in the meat business, he learned the stock brokerage business at a succession of shops—L.F. Roth-

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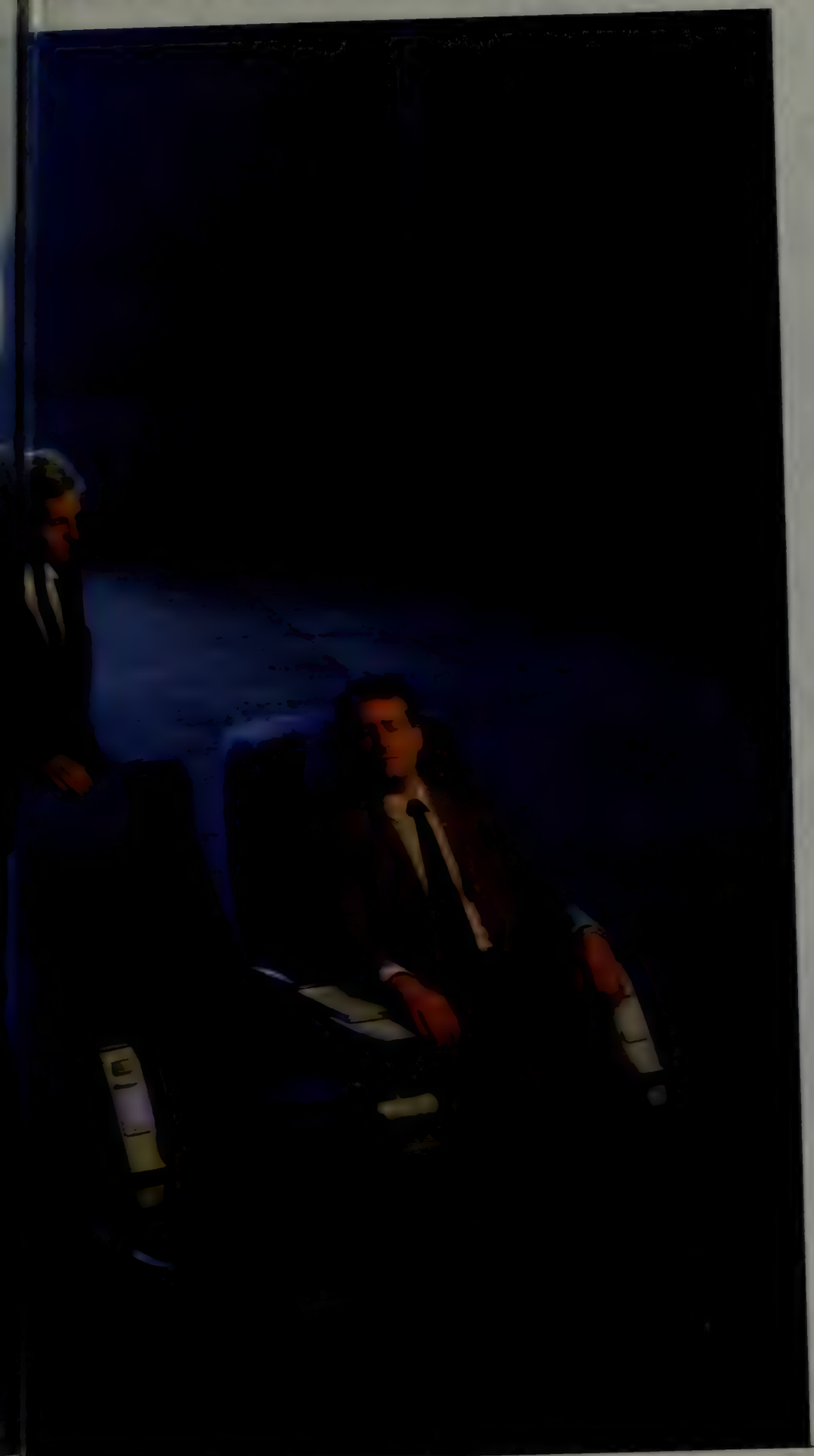

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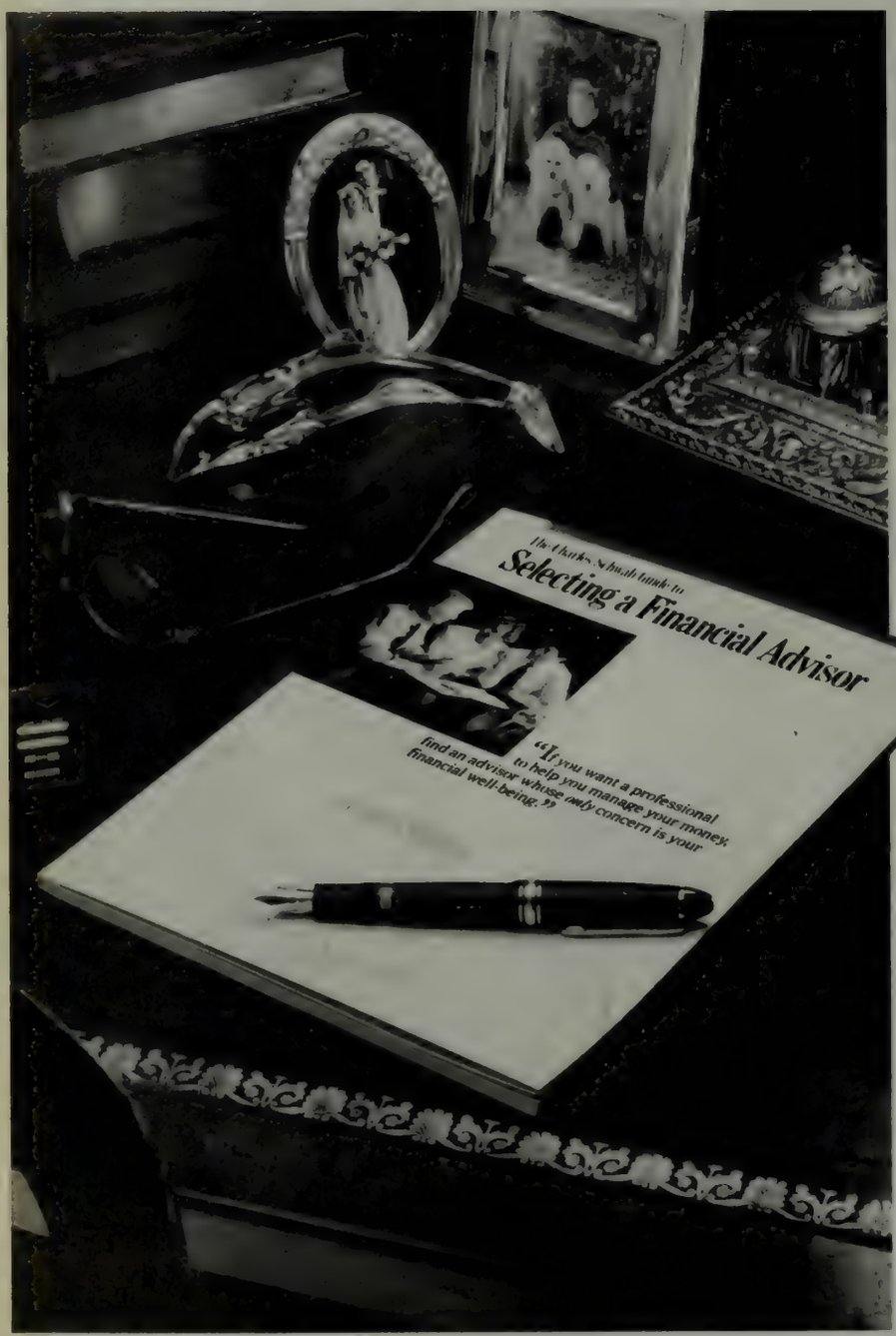

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schild, D.H. Blair and F.D. Roberts Securities. His postgraduate work came at Investors Center, the 850-broker penny stock house, where he went to work in 1988, and which was shut down by the SEC a year later.

In 1989 Belfort teamed up with 23-year-old Kenneth Greene, an Investors Center graduate who had occasionally driven one of Belfort's meat trucks. In early 1989 the lads opened an office in a friend's car dealership in Queens, then set up a franchise of Stratton Securities, a minor league broker-dealer. Within five months, Belfort and Greene had earned enough in commissions to buy out the entire Stratton operation for about $250,000. As Belfort's right-hand man, Greene owns a 20% stake in Stratton Oakmont.

To push his stocks, Belfort hired the same kind of motivated young salesmen who had driven his meat trucks. He taught them his trusted cold-calling technique, the "Kodak pitch." That is, the first tout is not some obscure over-the-counter issue but a blue chip, often Eastman Kodak. Only after an investor takes the blue-chip bait do Belfort's brokers pitch the higher-margin garbage. A former Stratton broker recalls Belfort's motto: "Whip their necks off, don't let 'em off the phone."

Belfort's brat-pack brokers quickly came to idolize him. One 28-year-old broker is said to have gone from laying carpets to earning gross commissions of $100,000 his first month, $800,000 his first year. He got to keep about half of that. On average, Stratton Oakmont's brokers make around $85,000 a year.

Sounding like a wet-eared version of New Jersey's great penny stock salesman Robert Brennan, Belfort says he's helping his clients invest in America's future. "To me, the most important thing is to get involved in fundamentally sound companies, earnings-based companies," he says.

Ventura Entertainment Group is a good example of Stratton Oakmont's merchandise. A North Hollywood, Calif.-based maker of TV movies, Ventura is the successor to a 1988 blind-pool offering. Belfort started pushing Ventura almost from day one, and last year underwrote a secondary issue for the company. At the time of the offering, Ventura was coming off a year when it lost $455,000 on revenues of $3 million.

The fellow behind Ventura is 52-year-old Harvey Bibicoff, whose previous company was electronics retailer Discovery Associates. Under him, the company, now called Leo's Industries, racked up huge losses (FORBES, *Nov. 26, 1990*).

Belfort's game is more than just one of collecting commissions and underwriting fees. Look at the Ventura secondary, for example. Last year Stratton Oakmont sold 400,000 Ventura units (one share and one warrant) for $12 each. The shares jumped to $15, and Belfort told his brokers to quickly buy back the warrants for $1 each from pleased investors, while continuing to push the stock. Within months, Belfort unloaded most of the warrants on investors for $10—a 900% profit. The recent price of Ventura's shares (after a 2-for-1 split): 63 cents. Cynically, Belfort now concedes that Ventura was a good story, but "a story only lasts for so long."

And then there was Nova Capital (now called Visual Equities), an art-investment company controlled by Alvin Abrams, the 56-year-old president of penny stock underwriter First Philadelphia Corp.—a man whose past includes repeated censures and fines by the SEC and the National Association of Securities Dealers, dating back to the 1960s. In 1989 Belfort acquired a block of Nova warrants for $1 each. He exercised the bulk of his warrants at $2.50 to $2.75 and retailed out the stock to investors for $5. Stratton brokers continued to tout the shares. The price rose above $9. As the stock went up, Belfort exercised more warrants and sold the shares. (The stock has since fallen to $3.) By one estimate, these and other warrant deals have earned Stratton upwards of $10 million over the past two years.

Many Stratton Oakmont stocks—including DVI Financial and Ropak Laboratories—have taken a pounding in recent months as word of the SEC investigation spread. But having made a killing from his warrant deals, Belfort appears unwilling to use the firm's capital to support the stocks. Sounding like a kind of twisted Robin Hood who takes from the rich and gives to himself and his merry band of brokers, Belfort justifies his record this way:

"We contact high-net-worth investors. I couldn't live with myself if I was calling people who make $50,000 a year, and I'm taking their child's tuition money."

Approaching 30, Belfort seems to have it made. He drives a $175,000 Ferrari Testarossa, and says he's taking it easy and looking to use Stratton to diversify into other businesses. Recently, for example, he bought an option to purchase a 15% stake in Judicate, a publicly traded, Philadelphia-based arbitration firm. Judicate—1990 losses $814,000, on revenues of $1.9 million—made news last summer when it landed a contract with the NASD to settle disputes between brokers and clients. The way things are going, Belfort is going to need all the help he can get dealing with Stratton Oakmont's roster of burned clients. ■

John Lurzey/Outline

Ventura Entertainment Group's Harvey Bibicoff **His name turns up in several Stratton Oakmont stocks, and brokers portrayed him as a Wall Street whiz. His record suggests otherwise.**

Carl Sandburg defined "expert" as "a damned fool a long way from home." He must have spent time in court.

Shooting back at paladins

By Brigid McMenamin

THE TRIAL was about to begin. Pittsburgh U.S. District Judge Donald Ziegler took Aetna Standard Engineering's lawyers aside and urged them to settle. No wonder. Plaintiff Craig Boles had lost his arm to an old steel roller-leveler made by Aetna. The jury was scheduled to hear folksy industrial-safety expert Joseph Ryan testify that a faulty Aetna guarding device caused the injury. But defense lawyers decided to take their chances.

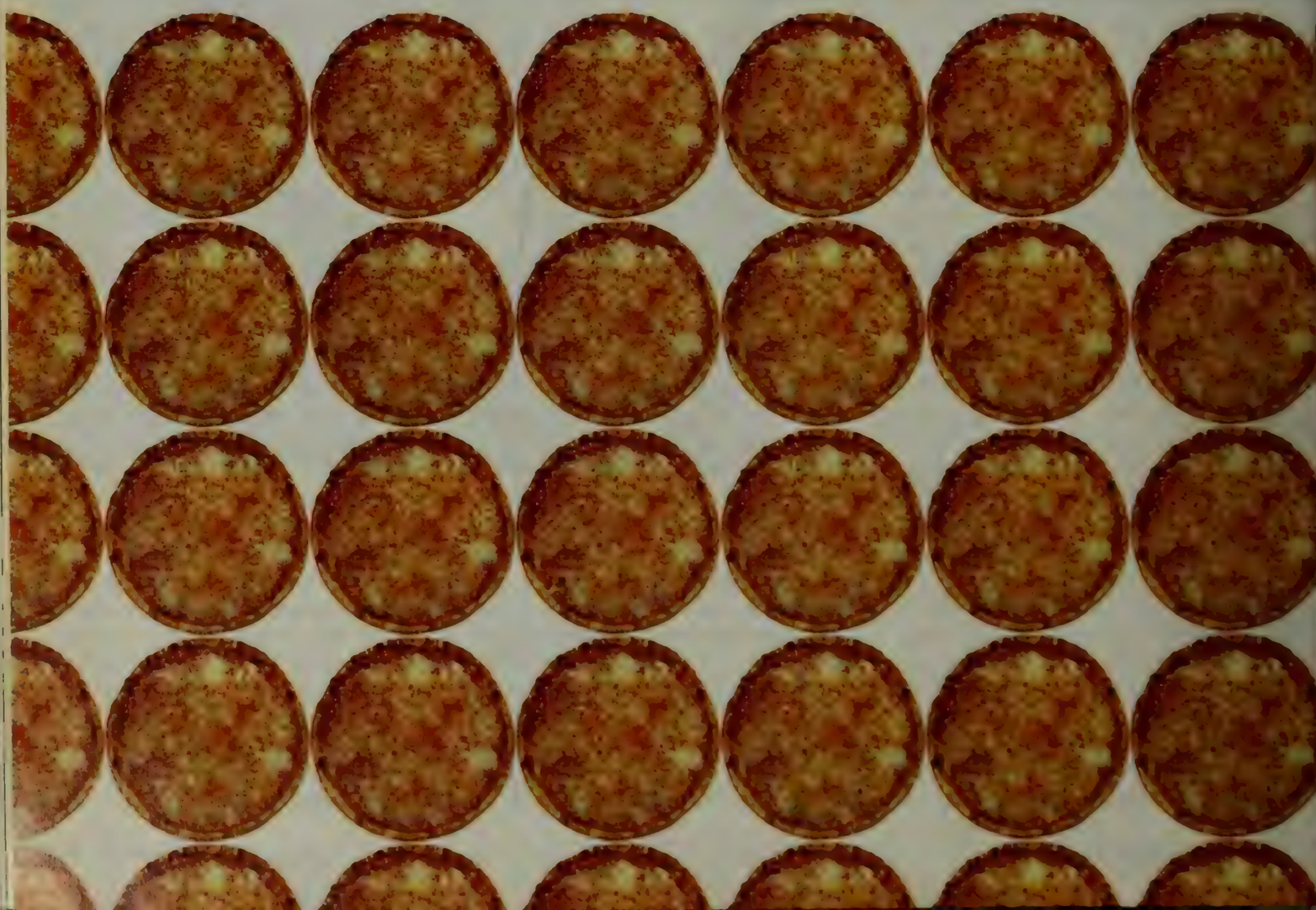
Aetna's lawyers knew something that the judge didn't. Expert witness Ryan had been rejected for a Michigan private investigator's license because of alleged moral turpitude. Ryan tried to explain it away to the jury, but the case was over. No liability was assigned to Aetna.

Seven years ago Karen Lemke was gardening when metal debris shot out of her father's Roper lawn mower and struck her eye. The Lemkes sued Roper and enlisted the aid of Malcolm Newman, a lawn mower "expert" who was paid to travel to Lynchburg, Va. and testify that Lemke's injuries were caused by Roper's design. But there was a problem with Newman's credibility: The defense produced transcripts from another case in which Newman swore he wasn't a lawn mower expert. Roper was vindicated.

How did the defense lawyers know the truth about these so-called experts? They called IDEX, a roughly $500,000 (revenues) six-person outfit that has become the secret weapon of the defense bar. Founded in 1984 by former insurance claims manager Tom Rogers, it maintains a computer database that records all kinds of useful information on expert witnesses.

Testimony by expert witnesses often fuels dubious litigation (FORBES, *July 8*). Experts earn fees of up to $500 an hour and $2,500 a day plus travel expenses, depending on the case. These paladins will go almost anywhere to give their opinions on everything from accounting to root canals. Their names are provided to the plaintiffs' bar by referral services.

"We're just keeping the 'experts' honest," says IDEX general manager Robert White. He says the service's 500 subscribers include big insurance companies like St. Paul Fire & Marine Insurance; big law firms like Arnold & Porter; Skadden, Arps, Slate,



Meagher & Flom; and Donovan, Leisure, Rogovin, Huge & Schiller; and even the U.S. Department of Justice. Each subscriber pays IDEX $375 to join, a smaller annual fee and $60 for each successful search.

Part of the deal of being a subscriber is providing IDEX with useful information the subscriber might have on plaintiffs' expert witnesses. The data are fed into IDEX's databank. When a defense lawyer learns the name of an expert the other side intends to use, he calls IDEX on a toll-free number. Back come names and phone numbers of subscribers who have transcripts, depositions or tips on the "expert" being checked out. And IDEX sometimes has this information.

There's nothing underhanded about IDEX. It is simply computerizing a task that defense lawyers have traditionally done on their own.

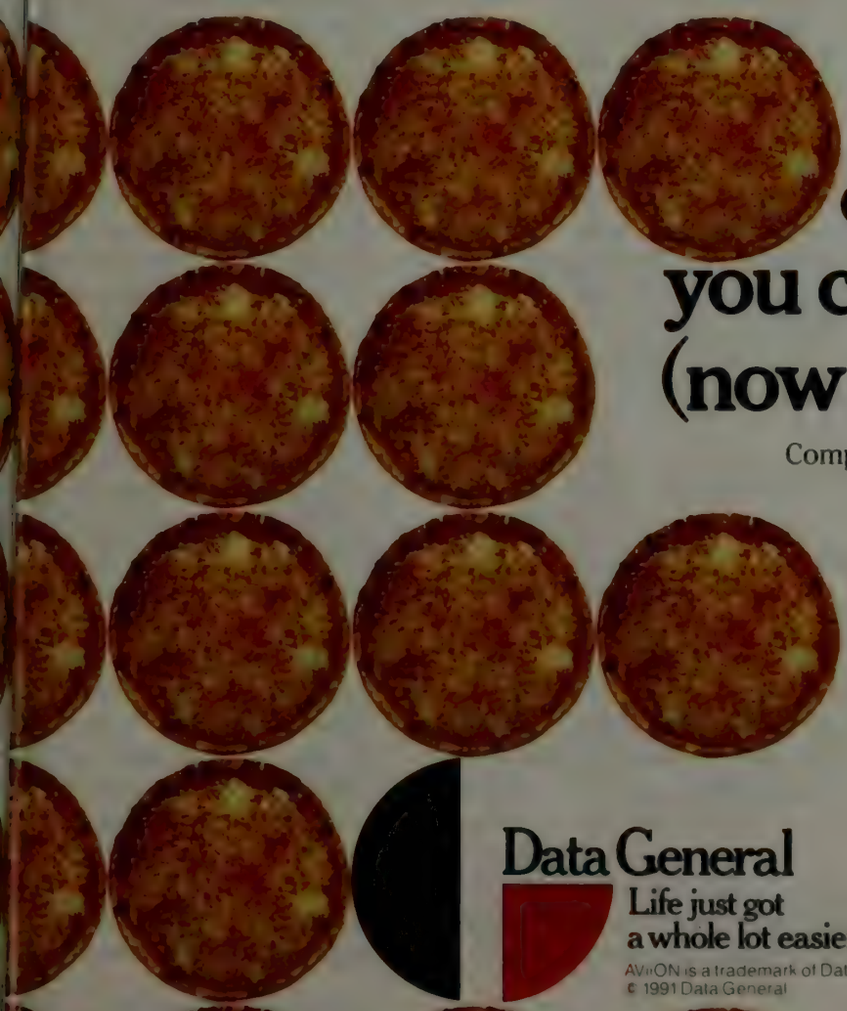
Philadelphia lawyer Jay Lambert recalls a tough medical malpractice case against his client, a neurosurgeon, eight years ago. Lambert was fretting over a damaging report filed by an opposing "expert." On the eve of trial, Lambert called a contact in the expert's hometown and hit pay dirt. It seems the expert wrote the report but was in a federal penitentiary—where he was doing time for falsifying medical reports.

Confronted with this information, the plaintiff dropped the suit against Lambert's client.

Defense experts aren't always saintly, either. Honeywell, defending a personal injury case, once hired American Standards Testing Bureau in Pennsylvania to find an expert who could size up an accident and testify in court. American Standards produced a report "signed" by expert C.F. Peck. But it turned out Peck hadn't visited the accident site or helped write the report. By the time Honeywell found out, when Peck was deposed, it was too late to hire another expert. So they lost the case and had to pay the plaintiff over $300,000.

But Honeywell got even: It found an "expert on experts" to testify that if not for American Standards' deception and negligence, Honeywell would have won. The jury bought it: American Standards had to pay Honeywell almost $320,000.

To really help stem the tide of dubious litigation, judges themselves should call in expert witnesses as informed nonpartisans, rather than let them appear in the courtrooms as know-it-alls-for-hire. But until that happens, services like IDEX will help screen out frauds and incompetents that are aiding and abetting the corruption of the U.S. legal system. ■



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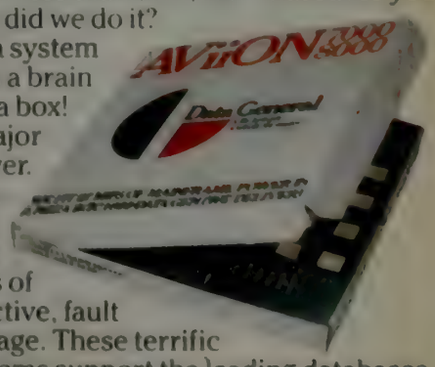

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In the adoption business, supply and demand are horribly out of balance: Right now 1 million American couples want to adopt infants, but only about 1 in 30 will get what they want this year.

How much is that baby in the window?

By Lisa Gubernick

KAREN is an office manager for a Pittsburgh computer firm. Joseph is a local environmental firm executive. They've spent the last eight years planning for a family, with no success. After years of infertility treatments, Karen, now 40, had to have a hysterectomy. They decided to adopt a child.

Thus began a long, agonizing and frustrating experience for this pleasant couple. The local Catholic Charities office told them they would have to wait five years—with no guarantees even then. Karen and Joseph tried another of the many not-for-profit adoption agencies. No luck.

After a year of waiting, they learned from one of the agencies that the only infants were either drug or alcohol addicted.

Were there any healthy babies? the couple asked. No, replied the social worker. Karen and Joseph still don't have their baby.

Until the Second World War, foundling hospitals and orphanages were full of unwanted infants. In those days the supply almost always matched the demand. At the turn of the century birth parents advertised *for* adoptive parents. But that was before legalized abortion and the fading of the old stigma on unwed mothers. Today the National Committee for Adoption estimates that a million couples are looking for children to adopt. Most of their chances are nil.

There are thousands of social-service agencies in the business of placing unwanted children, but just 250 of them have most of the action. Agencies handle about 70% of the business; other intermediaries, generally attorneys, handle the rest. But the babies just aren't there. According to the National Committee For Adoption, the number of adoptions dropped from 89,000 in 1970 to 51,000 in 1986, less than two-thirds of which were infants (1986 is the latest year for which figures are available). In 1989 another 8,000 babies were adopted from abroad.

For the 1 lucky baby-seeking family in 30 that will get a child this year, the expenses will likely be formidable. Legal and other fees, as well as medical and prenatal expenses for a baby's birth mother, can mount to as high as $50,000 for a healthy, Caucasian baby. The average figure, according to California-based psychologist and adoption expert Cynthia Martin, is around $20,000. So we have an adoption industry in the U.S. beginning to approach $1 billion.

Under current practices, a couple hoping to adopt a child has two basic choices.

The couple can sign up with one of the 250 or so active traditional not-for-profit adoption agencies—for example, one of the dozens of Catholic Charities across the country—and hope that the agency can find a baby. The problem with this is that too many of these agencies are passive, in the sense that they wait to be approached by pregnant women unsure whether they want to keep their babies. Few agencies aggressively market their services to young mothers-to-be considering adoption; many are still not listed as adoption agencies in their local yellow pages. Virtually none of the traditional agencies uses the classified ads. Given the fact that some unwed mothers are ill-educated and unsure of themselves, many of them may be unaware that such services even exist.

There is another problem with the adoption agencies. "Too many social workers bend over backwards to talk women out of giving their children up for adoption," says William Pierce, who heads the National Committee for Adoption, which represents over 100 not-for-profit agencies. In other words, many of these agencies do not give the mothers objective, honest advice but push their own prejudices. This tendency limits the number of children whose prospects for a healthy life might be improved by being adopted.

According to various adoption experts, just 10% to 30% of the women who consider adoption go through with it. The pull of motherhood is, of course, strong, but it may well be that many of these young women are just not aware of the alternatives.

What are the alternatives to traditional adoption agencies for would-be parents? In most states they can advertise. "Loving childless parents seek healthy white baby" is an advertisement frequently seen these days in rural papers. But this is a path strewn with mine fields.

Would-be parents can expect crank calls, not to mention dealing them-

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Southwest Adoption's president, James Medlock
Should he be allowed to make money placing babies?

selves with potentially explosive situations. Even with an adoption lawyer, they should walk with care. In New York State, adoption attorney Seymour Fenichel was disbarred after pleading guilty to charges of baby selling and bilking tens of thousands of dollars from would-be adoptive parents.

A further problem with lawyers is that while many are well qualified to handle the legal aspects, few have the time or talent or training to handle so delicate a matter with the proper sensitivity. Some attorneys suggest that their clients line up as many birth mothers as they can, stringing all along with encouragement and financial support until they have a baby. "Our lawyer told us to take whichever baby came first, then had his office call the rest and tell them I got pregnant," says one woman who went through the process earlier this year.

Is there a better way?

Some people argue that the whole process would prove more fruitful for the children, for the mothers and for the adoptive parents if some simple, sound business practices were applied. Consider Southwest Adoption Center, Inc., a for-profit agency based in Scottsdale, Ariz., with an affiliate in Seattle. The center charges a maximum $24,500 payable-in-advance adoption fee. Since its founding in 1984 Southwest and its affiliate have become a $3.5 million business, handling some 150 adoptions a year. Southwest was founded by a lawyer, Michael Sullivan, who has since left the business, and a onetime real estate developer named James Medlock, who is currently president.

The agency began as a part-time adjunct to Sullivan's legal business, but the business snowballed. "It quickly became clear that there was a need out there for an agency that applied some simple business principles [to adoption]," says Medlock.

In a market where supply falls far short of demand, Southwest markets itself not to adoptive couples but to the young women considering giving up their babies. The company sends social workers to local schools to discuss adoption with high schoolers. Billboards throughout the Phoenix area are plastered with its ads, and the "Adoption" page of the local yellow pages has a splashy promotion for Southwest. There's even a 30-second television ad touting its services.

Is this immoral? Is it trafficking in babies? Not so long as the mothers concerned get honest, unprejudiced advice—something they are by no means assured from social agencies with an antiadoption attitude. Arizona, like all other states, forbids the outright buying and selling of babies. But there's no law against making life a bit easier for expectant mothers. Southwest has excelled at finding out what birth mothers want, and then providing it. "Whatever the birth mother wants, she gets," says Medlock. "She calls the shots."

Kathy, a 23-year-old university student in Arizona, gave up her baby for a Southwest-administered adoption last year. She explains that she first went to a local nonprofit agency, asking what they could do about providing transportation to her doctor's office. The answer was: nothing.

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Reed Rahn

Gordon and Ruth Deen with son Joseph and adopted daughter Ruthie
They have a picture album of Ruthie's birth family.

"When I called Southwest they came and picked me up and told me I could take a taxi whenever I needed," she recalls.

If a young woman needs housing while she is pregnant, Southwest arranges for potential adoptive couples to provide her with room and board. Southwest insists that the boarder's child will never be placed for adoption with the family providing the shelter. The families providing the financial support must wait their turn. Meanwhile, they learn from the experience. "It gave us some insight into how it feels to be on the other side," says hopeful adoptive parent Colleen Edwards, who took in a young woman earlier this year.

In most cases the birth mother wants some control over and contact with the family in which her child will be raised. Not-for-profit agencies generally don't give the birth mother much say in this. Southwest does.

Jill, a 20-year-old, gave up her baby for adoption last July through Southwest. Her first call was to a Christian adoption agency. "I wanted to get profiles of the parents I would be giving my child to," she explains. "But they didn't even offer me a picture. I didn't want ongoing contact, I just wanted to know who they were."

Southwest provided Jill with several profiles of potential parents and let her choose among them. She picked a couple where the husband, like the father of her child, was born in India. Jill met the adoptive parents just after her baby was born. No last names were exchanged. "I just wanted to see them, know my son would be okay," she explains.

Adoptive parents often say they, too, appreciate the contact with the birth mothers. Why? In part because knowing the adoptive family seems to make birth mothers feel less anxious and guilty and so reduces the chances that she will change her mind and ask for her baby back.

Gordon Deen, a Scottsdale, Ariz. neurosurgeon, and his wife, Ruth, a teacher, have an 8-year-old son, Joseph, and a 5-month-old daughter they call Ruthie. They adopted Ruthie through Southwest this year.

The Deens met their daughter's birth parents the month before their daughter was born. They were a married couple who already had three other children and couldn't afford a fourth. "I was glad to meet them," Ruth says. "It was important for me to know why she was giving up her baby—and important for her to know the baby was going to a good home. The mother said she chose us because our little boy looked so much like her sons." The Deens keep an album of their daughter's birth family for their little girl.

As a business, Southwest knows the importance of having satisfied customers. Adoptive parents who lose a child to a mother who changes her mind are not satisfied customers. Southwest tries to minimize the potential for such heartache by waiting until the eighth month of pregnancy before matching adoptive parents with a child, the idea being that by that time the birth mother has had ample time to consider her decision. Still, Medlock concedes that 50% of the women the company has worked with change their minds after the

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baby is born. If an adoption does fall through, Southwest's clients are placed back in the pool with no financial loss.

Privatizing the adoption procedure probably won't increase the number of children available, but it could well lessen the chance of heartbreak and disappointment. So why aren't there other for-profit adoption businesses? A big part of the answer is in the complexity of state adoption laws. In Arizona, Southwest's home state, the birth mother can sign relinquishment papers only 72 hours after her child has been born. But after that her decision is final. In Maryland, by contrast, the mother can change her mind up to 90 days after the adoptive parents have taken the baby home.

The kind of support Southwest gives its prospective birth mothers would probably be illegal in many states. In North Carolina, for example, virtually any payment of a birth mother's expenses by adoptive parents or their agents is illegal. In New York, individuals can advertise for babies, but lawyers cannot. In Georgia, not-for-profit agencies can advertise, but adoption advertising by individuals or lawyers is illegal, punishable by a fine of up to $10,000 and/or a prison sentence of up to ten years.

"These conflicting laws just don't make sense," says Mark McDermott, who heads the American Academy of Adoption Attorneys. "We need uniform legislation." But Joan Hollinger, the attorney drafting a uniform adoption statute for the National Conference of Commissioners on Uniform State Laws, doesn't expect a final version until 1993, at the earliest.

With more uniform rules, more outfits like Southwest could probably function. And while they will never replace the social-service agencies, the existence of this kind of competition would probably force nonprofit agencies to adopt some better policies. At the very least, the profitmaking adoption companies would provide a yardstick for the nonprofit ones.

There will always be unwanted babies. There will always be parents eager for adoption. Anything that would ease the heartbreak, the disappointment and the inefficiency of the process would be a blessing.

Joseph and Karen, the Pittsburgh couple with whom we began this story, have decided to try the private for-profit route. This past spring they paid Southwest its $24,500 fee; they hope they will finally have a baby in less than a year.

"Sure, it's expensive," says Karen. "We are paying to accomplish in one year what other agencies told us would take five times that long." ■

Precious imports

FACED WITH a shortage of adoptable domestic babies, American families were importing an increasing number. But in the last few years U.S. adoptions of foreign babies dropped, down to 8,000 in 1989 from 10,000 in 1987.

South Korea remains the major supplier of babies to the U.S., but as the country has grown more prosperous the numbers have declined sharply—from 6,200 infants in 1986 to 3,552 in 1989. The Korean government has been very successful at encouraging Korean couples to adopt children, eliminating the need to place infants abroad.

Orphanage in Poona, India

Are quotas preventing their adoption?

In the first half of this year over 2,700 Romanian infants were adopted by U.S. families. The well-documented horrors of Romanian orphanages spurred many American couples to start their searches for adoptable children in Bucharest. But the Romanian market has been plagued with scam artists and hucksters.

Accused of baby-selling, the Romanian government reacted harshly: Starting in July, every foreign adoption had to be cleared by a newly created central agency in Bucharest. With the new bureaucracy up and running, there have been no new Romanian adoptions since July.

Latin America has become a growing source of infants, with 2,352 in 1989, compared with 1,861 in 1986. According to David Pilgrim, a supervisor with the Children's Home Society of Minnesota, which specializes in foreign adoptions, Colombia is currently the easiest country to adopt from, Peru the most difficult.

"Generally speaking," says Pilgrim, "the more stable a nation's government and the economy, the more stable the adoption process."

There were 677 children adopted out of India in 1989 and nearly 50% less in 1990. The reason? Unfortunately, it's not that the number of children needing adoption decreased. The Indian government has been enforcing quotas on Indian agencies, limiting the number of babies who can go abroad.

"The Indian government would strongly prefer that the children be adopted there," says Pilgrim. "Unfortunately, what's happening is that too many children who might be placed abroad are simply staying in orphanages." —L.G. ■

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A new economic grouping is emerging in Central Europe that is eager to buy practically everything America has to sell. Naturally the Western Europeans are worried.

Welcome to the dollar bloc

By Peter Fuhrman

DON'T BE MISLED by all the tales of economic gloom in Poland, Hungary and Czechoslovakia, as those countries probe their ways toward market economies. Statistically, it is true, their national incomes will contract by 5% to 10% this year. But these declines simply reflect the closure of old socialist industries—the write-down, as it were, of obsolete plant, equipment and inventory. What the figures don't disclose is the explosion in consumer spending and investment now under way in the Central European countries.

Marcos Sorensen

Arising from the ashes and debris is a Central European Community. A primary market of 65 million consumers—with another 245 million in the wings in Bulgaria, Romania, Russia, the Baltics and the Ukraine—the CEC is pro-America, pro-free trade and very pro-dollar. The exchange rates for these three countries are pegged to the dollar, either formally by their central banks or informally by the (no longer black) market.

This has real-world consequences: Wherever the dollar is king and markets are open, as in most OPEC countries and parts of Latin America, U.S. merchandise exports tend to do best. Through the first half of this year, U.S. exports to Poland, Czechoslovakia and Hungary are up by 85% over the same period a year ago, to a total $464 million *(see chart, p. 102)*. Though this is from a low base (U.S. exports to South America run to $15 billion a year), this growth outstrips that of U.S. exports to any other region. Also, given how much U.S. merchandise is being imported through unofficial channels, these trade statistics undercount the growth in U.S. exports to the region.

Every day, trains and cars from Berlin, Brussels and Vienna arrive in Warsaw, Budapest and Prague stuffed with Apple computers, Sony tape players, Levi jeans. Some of the goods remain. Some move east along new trade routes that extend into former Soviet territory. On the train from Warsaw to Vilnius in Lithuania, for example, passengers set up cardboard counters to sell electronic goods and clothing. Others bargain all night with one another and the conductors. Medium of exchange: dollars.

In Poland alone it's estimated there is at least $8 billion in U.S. currency in circulation as a parallel currency with the zloty. Poland's 40 million citizens have another $30 billion or so stashed in private bank accounts inside and outside Poland. The Polish central bank just issued $5.5 billion of its own dollar-denominated Treasury stock to Polish customers. These Polo-dollars further enhance Poles' confidence in their country's finances.

Walk around Warsaw's Marszalkowska Street, the city's main shopping area, and the shops and sidewalk

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Germany, with its strength in industrial exports, remains the CEC's largest trading partner. Consumers' cash is driving much of the growth in dollar-denominated exports from the U.S. and Japan.

stalls are crammed with Procter & Gamble detergents, Reebok sneakers, Mobil motor oil, Estée Lauder cosmetics. Down one side street, cigarette sellers hawk cartons of Marlboros, made in the U.S. but without tax stamps, for $9.50—far cheaper than anywhere else in Europe. One can pay in dollars or zlotys—or for that matter, rubles: The exchange rate between the zloty and the ruble is fixed against a dollar peg. (Current rate: $1 = 11,000 zlotys = 35 rubles.)

It's not just sneakers and software that are selling. The U.S. is strongest where Central Europe is weakest—in services. The largest operator of restaurants and food retailing shops in Hungary is majority-owned and managed by George Hemingway, a 44-year-old Hungarian-born Californian. (His eponymous holding company is quoted on the Vienna Stock Exchange.) American Express' travel office in Warsaw has been besieged since it opened in June. Poles want AmEx's charge card, though in many cases the applicant is really a company looking to use the card as a form of dollar-based commercial credit.

American films, videos and recorded music are everywhere. U.S. accounting firms—Arthur Andersen, Ernst & Young, Coopers & Lybrand—are having a field day in Central Europe, acting as auditors to local companies, advisers to governments on new tax statutes and investment bankers for Western firms hunting for assets. Big Wall Street firms—including Goldman, Sachs, Morgan Stanley and First Boston—are active in the region. Major Madison Avenue advertising agencies are also in the chase, led by Young & Rubicam, which has offices up and running in Budapest, Prague and Warsaw.

"The three Central European countries are soaking up everything we can deliver, and overall sales should double again this year to $300 million," says Jakob Schmuckli, president of Sony Europe. "But all this has been achieved without any real advertising effort, which we're only just beginning."

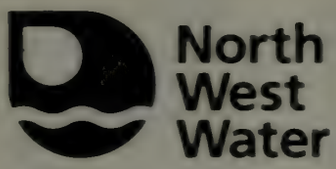
Admirably, these newly emergent democracies are showing less willingness to go on protecting their own industries in the European Community's fashion, with quotas and local content rules. Open markets mean open season for U.S. and Japanese capital goods exporters. In Central Europe, U.S. computer companies like IBM and Compaq and Japan's NEC are trouncing their Western European counterparts. Likewise in telecommunications. AT&T is regularly thwarted in its efforts to sell switching equipment in protectionist Germany and France, but has walked away with valuable contracts in Poland. GTE is building a cellular telephone system in Hungary.

A question mark, however, hangs over the issue of free trade in automobiles. For now, Polish and Czech markets are effectively monopolized by domestic car producers tied to Western European firms. In Poland, FSM is affiliated with Italy's Fiat. In Czechoslovakia, Skoda is now owned by Germany's Volkswagen. There are no formal government promises (yet) to keep Poland and Czechoslovakia closed to imports. But Fiat and Volkswagen will push hard to remain the privileged providers. (In Hungary, which never had a domestic automobile industry, the gates have been thrown open.)

Western Europe's carmakers fear that, left to their own free-trade devices, the Central European countries could become a back door through which Japanese-made cars might flood into Western European markets. To bar such competition, European Community bureaucrats are now hinting that the Central Europeans may have to agree to limit Japanese car production and imports if they want someday to pass muster as applicants for membership in the EC.

Such an EC-imposed trade restriction would put the Central European countries in a bind: They need free access to Western European markets, especially for their food products. But they know in their heart of hearts that they also need as free as possible trade and investment to achieve swift economic renewal.

It all amounts to a most provocative experiment in postcommunist political economy. The Western Europeans hope to maintain their comfortable standard of living and defend many of their least competitive industries with subsidies and trade barriers. The Central Europeans need to improve their material conditions, and are convinced that open trade and investment policies offer the only hope of doing that. Stasis versus dynamism: Whichever wins will have a profound impact on the economic future of Europe.



North West Water Group PLC

has acquired

Wallace & Tiernan Group, Inc.

The undersigned assisted in the negotiations
and acted as financial advisor to North West Water Group PLC

JPMorgan

A wealthy man gave his mistress and her twin sister cash and gifts worth $4 million. The IRS said the cash was taxable income, and the ladies ended up in jail.

Business or pleasure?

"IT WAS HELL," says Lynnette Harris. Her identical twin sister, Leigh Ann Conley, agrees: "Each minute in jail felt like a day. I nearly lost my mind."

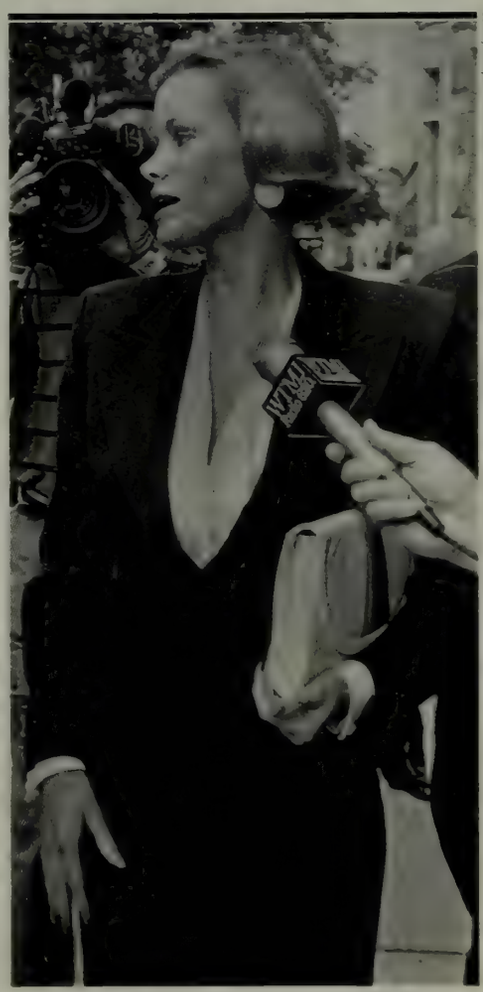
The two are now rejoicing after a resounding victory in the Seventh Circuit Court of Appeals in Chicago, in one of the most bizarre tax cases in years. It revolves around whether a man's payments to his mistress (Harris) and her sister (Conley) were taxable compensation for sexual favors and companionship or gifts to a lover. On appeal, the two women were found innocent of criminal tax evasion, but during the appeals process each spent months in jail— Conley in maximum security. Civil cases by the IRS against the two are still pending.

"I find it absolutely extraordinary that the IRS and Justice Department spent so much taxpayers' money and time on this," says Gerald Portney, a former top IRS official now with KPMG Peat Marwick.

The story begins in late 1980. At that time the comely blonde twins, then 26, had a sort of sister act: They modeled together in their native Milwaukee; appeared together in *Playboy* photo features twice; and acted together in a grade B movie.

Then Harris met David Kritzik, a Milwaukee businessman whom the appeals court called "a wealthy widower partial to the company of young women." According to press reports, Kritzik, then around 80, was rich from, among other things, selling a firm that included the discount chain Treasure Island to J.C. Penney for $14 million in 1962.

Kritzik showered Harris with jewels, fur, a house and renovations, and cash. When he wasn't in Milwaukee, she regularly dropped by his office to pick up a check. Altogether Kritzik gave her money and objects worth an estimated $3 million. Kritzik also developed a close relationship with sister Conley, to whom he made presents worth around $1 million. The twins say he did so partly because his affair with Harris disrupted Conley's modeling and acting career.



Jeffrey Phelps/The Milwaukee Journal

Lynnette Harris
From Playboy to jail cell.

The cash, the IRS decided, was p ment to the two women for sex favors and companionship and t was taxable income to them. It not constitute gifts from a lover, gued the taxmen, but was more earnings from prostitution. The thorities then went after the wom for some $450,000 in back taxes, p interest. According to Aaron Sta bin, Conley's Milwaukee attorn the government urged Conley to t tify against her sister. Assistant U Attorney Mel Johnson, who pro cuted the case against the wome won't comment on this issue.

Harris and Conley were convict of tax fraud by a jury in 1990. But t government had managed to exclu from evidence a crucial series of lo letters Kritzik wrote Harris. The letters were one basis for the appe court's reversal of her conviction.

The tax law distinguishing betwe payments for sex and gifts betwe lovers is unclear. But the appeals cou held, in effect, that what mattered Harris' case was Kritzik's intentior and her perceptions of them. Kritzik love letters helped convince the cou that she was reasonable to assume t payments were gifts. In Conley's cas the court said, the evidence was sin ply insufficient. Therefore the siste weren't guilty of a crime.

Before he died in June 1989, Kri zik did give the IRS a statement that hadn't meant the payments to gifts. But the courts excluded th from evidence, perhaps because it a peared self-serving.

Why self-serving? Because Kritz might have realized that if the mon he gave the women really were a gi then he could be guilty of not filin and paying appropriate gift taxes.

Philanderers take note: You can have it both ways. Payments such those the twins got are taxable *eith* as income to the recipient (an amount) *or* as gifts by the don (unless below $10,000 a year). Th taxman must get his due.

If the IRS were brash enough t reverse its stated position, this coul present a big tax problem for Kritzik estate, which is still open. The prob lem: Each taxpayer gets onl $600,000 worth of cumulative e emption from gift and estate taxes. I

At J.P. Morgan, success is measured as much by the deals we don't do, as by the deals we do.

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Leigh Ann Conley
Partner in a non-crime.

theory, the gifts that Kritzik made to the sisters would be included in Kritzik's estate.

The government hasn't signaled whether it will petition for a rehearing of the case, take it to the Supreme Court or let the matter drop. The sisters, meanwhile, are trying to recover from their time in jail, which the appeals court called "an injustice."

The larger question is: Why did the IRS pursue this case to the hilt? In choosing criminal tax cases, it looks for maximum publicity, but here it has risked looking both repressive and ridiculous. Why pick an area of the law that is totally muddled?

As the court noted, there are no tax regulations detailing what is sex for business and what for pleasure with mistresses—unlike, say, the rules that govern whether home appliances can be charged to a company account. The appeals court judge also suggested that the taxmen would have done better had they gone after Harris for more than $100,000 of bogus renovation costs that Kritzik reimbursed her for. This money was clearly unreported taxable income, yet the IRS failed to pursue this issue.

"Maybe," mutters former IRS official Portney, "this means they [the IRS] will make johns issue 1099 forms to prostitutes reporting income they paid them. Or ask recipients about gifts, so donors can be checked. But we'll have to have exemptions for weddings and showers.

"What next?" wisecracks Portney. "MUP? The Mistress Underreporting Program?" –L.S.

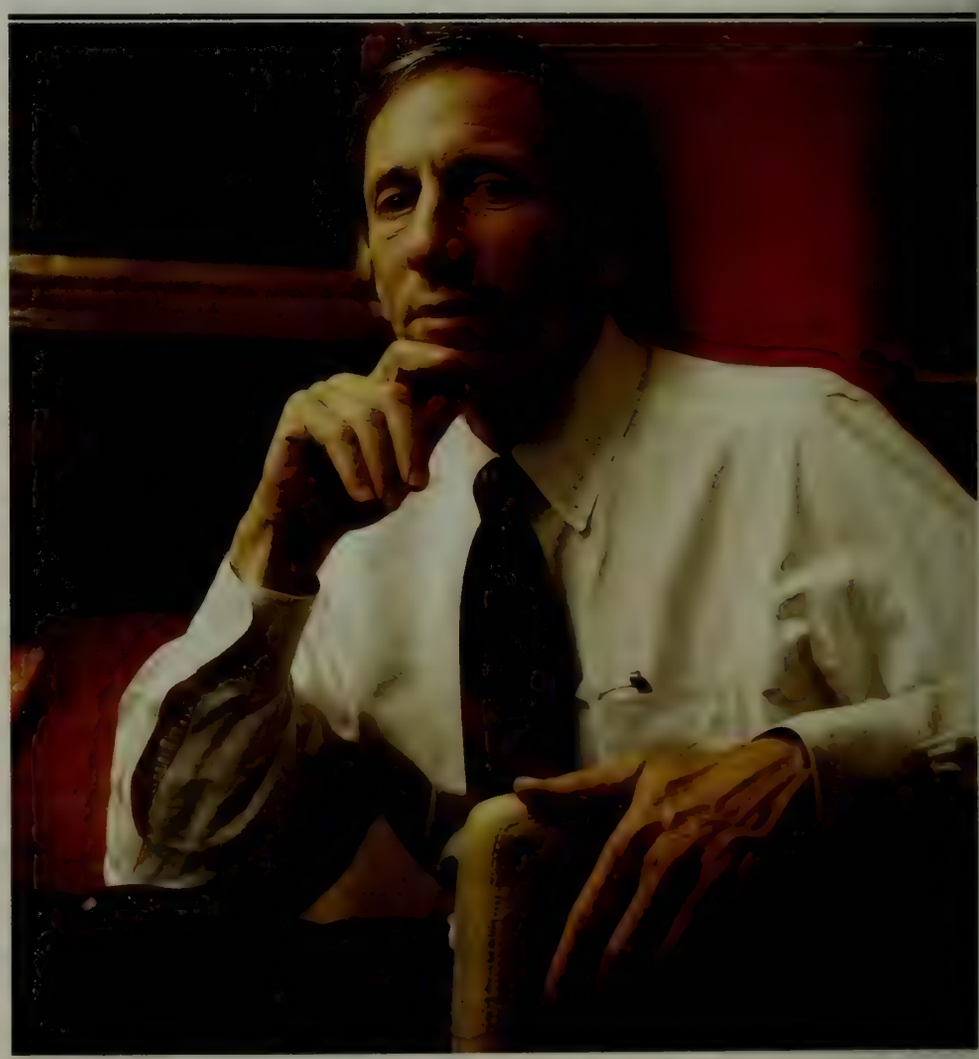
Warren Hellman and Tully Friedman soured on Wall Street early and went on to become two of the country's most sought-after financial advisers and investors.

Wall Street refugees

By John H. Taylor

EARLIER THIS YEAR when BankAmerica Corp. was plotting the largest bank acquisition in history, it quietly turned to San Francisco-based Hellman & Friedman. Did the tiny investment bank think acquiring Security Pacific made strategic sense? It did, and BofA went ahead with the merger, which is expected to be consummated early next year.

Similarly, when Chicago centimillionaire Sam Zell was looking for a



Warren Hellman
He's the man that people in the know turn to for good advice.

Roche Holding Ltd

has acquired through a multi-stage auction

Nicholas

the European and Australian over-the-counter pharmaceutical business of

Sara Lee Corporation

The undersigned assisted in the negotiations and acted as financial advisor to Roche Holding Ltd

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Gary Gladstone

Tully Friedman
"We were scared to death of the 1980s."

partner and investor in his Great American Management & Investment Inc. last year, he made one call—to Hellman & Friedman, which bought 18% of Zell's company for $50 million and took two seats on the company's board.

If you have never heard of Hellman & Friedman, join the crowd. In a story about the Bank of America/Security Pacific deal last summer, even *The Wall Street Journal* identified Hellman & Friedman as a law firm.

Actually, it is a very small, very profitable investment bank with only 30 employees and nine partners. Yet its clients include companies like Levi Strauss, Clorox, Hewlett-Packard, Magma Power and BankAmerica. Investors in deals the firm has put together range from Houston money manager Fayez Sarofim and venture capitalist Arthur Rock to AT&T, Stanford University and Chase Manhattan Bank. The firm's clients pay retainers of $300,000 to $400,000 annually for the firm's advice. They pay extra to employ the firm to negotiate acquisitions or sales.

The firm was founded seven years ago by two Wall Street refugees, Warren Hellman, now 57, and Tully Friedman, 49. Hellman, the great-grandson of the founder of the predecessor of Security Pacific Bank, grew up in a prominent San Francisco family. After graduating from Harvard Business School in 1959, he joined Lehman Brothers, where his father once worked.

At 27, Hellman was the youngest partner in Lehman history. In 1972, at age 38, Hellman became Lehman's president. Bored by administration, he quit in 1977 to start a venture capital firm in Boston.

Friedman is from an altogether different background. The son of a Russian émigré who moved to Kenosha, Wis. during the 1917 revolution, Friedman joined Salomon Brothers in 1970 and moved to the firm's San Francisco office in 1971. At the time, most investment banking firms had one or two senior people on the West Coast to scout for business. If they found something promising, the partner would call in the big guns from New York. Friedman changed all that by hiring a dozen or so people on the West Coast who could put deals together on their own.

Hellman and Friedman met in 1981, after Hellman moved from Boston back to San Francisco. They discovered they shared a disenchantment with the changes occurring in investment banking. No longer did the firms keep a list of valued clients for whom they provided advice. Now everything was fee-driven. As Friedman puts it: "In the 1980s, Wall Street became like a doctor whose cure for every problem was the most expensive treatment available."

They decided to set up a firm devoted to providing ongoing advisory services and investing for their own account. They made an odd team: Hellman, a fanatical long-distance runner and ski racer; and Friedman, the president of the San Francisco Opera, whose idea of a pleasant evening is to curl up with a good novel. Odd, but highly effective.

"When you talk to Warren or Tully, it is like stepping back to another era when people stood for something," says Levi Strauss Chief Executive Robert Haas, for whom Hellman & Friedman handled one of the most successful leveraged buyouts in history. "They don't try to sell you a product. They give you good solid advice without any varnish."

The firm's first big break came in late 1984 when Haas, a distant relative of Hellman's, called to ask the firm to do an analysis of Levi Strauss' financial strategies. Over the years, the company, then publicly owned, had consistently generated excess cash flow, but the acquisitions it made with the cash never matched the returns on the company's jeans business. "The more we looked at it, the more we agreed that going private was the best use of the excess cash flow," Hellman says.

This was not the news Haas had hoped to hear. He feared that by making a public tender offer, his family, which owned roughly 40% of the stock, would risk losing the company to a higher bidder. He also fretted

The Stroh Brewery Company

has sold its 31.6% interest in the

Cruzcampo Group

to

Guinness PLC

This sale included Stroh's 28.4% holdings in
La Cruz del Campo, S.A. and
30% holdings in Henninger Española, S.A.

J.P. Morgan España S.A. acted as financial advisor to
The Stroh Brewery Company in this transaction

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that the $1.7 billion in new debt would cripple Levi.

Hellman and Friedman argued that Levi's cash flow provided more than enough money to pay its debt even without any improvement in the business. Haas remembers the situation was "scary." But the family agreed to Hellman & Friedman's plan.

Haas' only moment of trepidation occurred shortly before the buyout was to be announced, when Hellman left town to train for a 100-mile race through the Sierra Nevada Mountains. "I was apoplectic," Haas recalls. "I kept saying to Tully, 'This is the most important thing this company and my family will ever do. If he goes over the cliff in the middle of the night, this whole deal could go down the tubes.' Tully told me, 'Bob, don't ask Warren to choose between you and the race. You probably won't like his answer.' "

Hellman survived (though he did crack his ribs in the same race a year later) and the deal, completed in August 1985, became a case study of how a leveraged buyout should work. Not only has the acquisition debt been retired, but the company has been generating record earnings. The company's shares, about 92% of them in the hands of the family, are worth nearly $3 billion. Hellman & Friedman, which received about 1.3 million shares in addition to a $7 million fee for the deal, now owns Levi stock worth upwards of $60 million.

From this one might expect that Hellman and Friedman would have styled themselves as LBO experts and gone on to orchestrate a series of lucrative deals. In fact, Levi Strauss was the only large leveraged buyout the firm ever did. Spooked by rising prices as the 1980s wore on, and the rosy earnings projections needed to justify these prices, the firm elected to sit on the sidelines. Even after raising $325 million for an investment pool in 1987, Hellman & Friedman invested only 25% of it by the end of 1989. Most of that went into preferred stock of American President Cos., the Oakland-based containerized shipping company.

"We were scared to death of the 1980s," Friedman recalls. "What puzzled us was how all the rules could suddenly be thrown out."

Patience is often its own reward. Not only have prices plummeted for many properties, but capital has largely dried up—but not at Hellman & Friedman. In recent years Hellman & Friedman has been investing heavily in closely held and private companies ranging from Walk-Over, a Massachusetts-based shoe manufacturer, to Zell's Great American Management. The firm recently raised $500 million for a second fund and is joining Australian billionaire Kerry Packer and Canadian publisher Conrad Black in a bid for John Fairfax Ltd., the giant Australian publisher. It may also surface with Zell and former Geico executive Jack Byrne to jointly bid for Executive Life, the failed insurer.

"These are not the kinds of guys who make an investment and call you up once a month to see how it's doing," says Marc Nathanson, the chief executive of Falcon Cable Television, with whom the firm committed $50 million in 1989 for cable acquisitions. "They go to the banks with us. They give us advice on acquisitions, go to our corporate retreats. It's hard to find partners you trust and feel confident going into battle with, but these guys are it."

There are no signs the partners are slowing down. Friedman crisscrossed the country throughout the spring and summer raising the $500 million for the firm's new investment pool. Hellman still rises at 4:30 each morning for his daily jog, then puts in a good ten hours at the office. His current passion is a wacky event called a "ride-and-tie," a 20-to-40-mile race in which one partner takes off on foot, the other on horseback and the two alternate back and forth over the duration of the race.

What keeps them going? Replies former BankAmerica dealmaker and Executive Vice President Stephen McLin, a longtime friend of Friedman's: "Tully and Warren want to be thought of as real players who make a lot of money for their partners and for themselves, but who absolutely refuse to do it in a way that hurts their reputations." Expect to hear more from this well-capitalized pair of Wall Street refugees. ■

Gerry Gilbert/Sipa

Hellman competing in ride-and-tie

Given the choice between work and a race, he'd probably pick the race.

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Original painting by Mark Hess

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TAKE ADVANTAGE OF CHANGE℠

What does it take to start a new business, besides capital and a good idea? In Hi-Tek Chemical Corp.'s case, lots of patience.

Barnacle bashing

By Dyan Machan

A MESSY LITTLE OFFICE in the grimy Long Island town of Hempstead, N.Y. is the headquarters of Hi-Tek Chemical Corp. Hi-Tek makes Epco-Tek 2000, which bills itself as an environmentally safe coating that prevents organisms like barnacles and mollusks from growing on things that sit in water.

The marine division, Hi-Tek's only division, has no sales. Inventory? Well, altogether there are probably 40 gallons of Epco-Tek 2000, including the 8 or 10 gallons in Ruskin, Fla., where Joseph Wentzell, 61, Epco-Tek's inventor, and his wife, Joyce, live aboard their 42-foot sailboat.

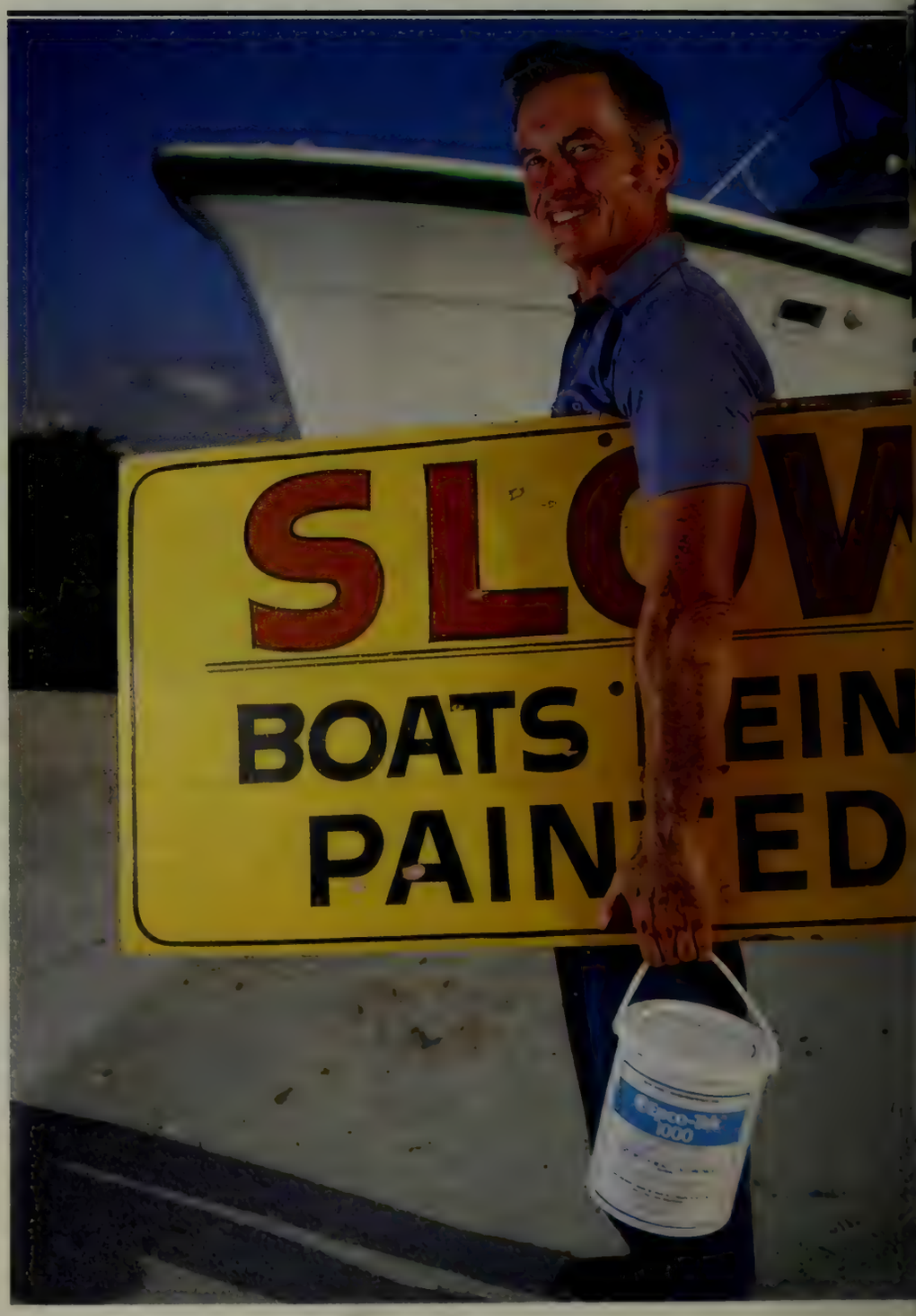
What Hi-Tek does have, however, is promise. That's because barnacles are a terrible problem. They slow down and eat away at boats and sink buoys. To repel them, boaters generally paint their boat bottoms with copper-oxide paints. But copper-oxide paint loses its potency every two years or so. Moreover, it is toxic to other marine life—and to people—as well as barnacles.

Was there a better way to repel barnacles? Wentzell thought there must be.

Educated as a metallurgical engineer, Wentzell is an inventor who has at least 30 patents to his name; some have turned into decent moneymakers. For example, patents for making a superalloy—able to withstand high temperatures—for jet engines were the basis of a company he sold to Pratt & Whitney for $1 million in 1975. Says Joyce Wentzell, his wife of 39 years: "Joe can't see a problem without coming up wth a solution."

As soon as Wentzell decided to buy a boat, in 1984, he started worrying about the barnacle problem. He fooled around with paint formulas. Mixing pure copper with epoxy, Wentzell came up with a coating he claims drives away barnacles, is safe for other life and, he predicts, will stay on for 20 years.

He applied for a patent on the formula in 1988, and then tried to interest Ferro Corp., the specialty materials company, in licensing his formula. "But you know big companies," says Wentzell. "They can never make a decision." Then the 1987 stock market crash wiped out most of

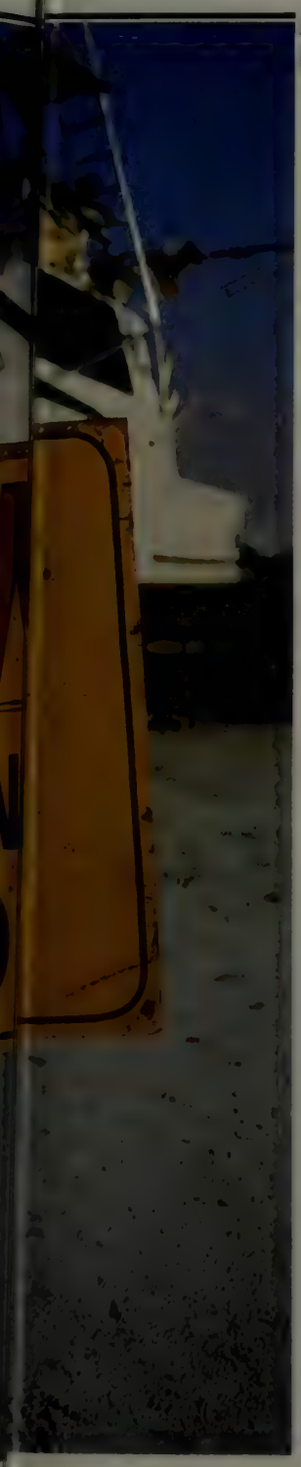


the capital he had earmarked to start the business.

At this point Wentzell called Richard Spera, now 60, an entrepreneur who had made some money in real estate development, and who was running a little metal-refining business in Hempstead. Wentzell had been friendly with Spera since 1977, when he'd bought some land from him in the Adirondacks.

Calling Spera to talk about another business venture, Wentzell soon told him about his new antibarnacle paint. The paint interested Spera. Wentzell asked him to back the business. Each would own 50%, no paperwork, no lawyers. Spera agreed to channel the cash flow from his metal-refining company into developing the paint.

Would their product sell? To find out, the partners gave the coating a fancy name, Epco-Tek 2000, made up an impressive brochure and went to the 1989 Miami boat show to test the waters. They put one of Wentzell's test panels into a fish tank. The side that had no Epco-Tek was covered with barnacles. Boaters and dealers at the show tried to order Epco-Tek 2000. There was none. But Wentzell and Spera went home encouraged to tackle the obstacles that lay between their idea and commercial success.



Alex Harper

Gary Spencer

ABOVE:
Richard Spera, Hi-Tek Chemical cofounder
LEFT:
Joseph Wentzell, Epco-Tek 2000 inventor and Hi-Tek cofounder

New businesses take "more time and more money than you ever imagine."

One enormous obstacle was the Environmental Protection Agency. Because Epco-Tek's purpose is to repel barnacles, it had to be registered as a pesticide with the agency. In August the registration finally came through—17 months after Wentzell and Spera applied for it. That's pretty typical by a bureaucrat's lights but an eternity for entrepreneurs with limited capital trying to get their product to market. Says Joyce Wentzell, sensibly: "I think people on the inside delay things just to keep their jobs."

While they waited and waited for word from the bureaucrats, Spera kept busy. He found a used paint mixer and showed his refinery workers how to make Epco-Tek 2000.

Spera also laid the foundations for the Epco-Tek marketing campaign. He enrolled the paint in a study of similar products by an Ontario zoologist, Gerald Mackie, who deemed it the most effective commercially available substance to reduce the settlement of troublesome zebra mussels. And Spera began calling on electric utilities, asking them to test the product for free. Long Island Lighting Co., Virginia Power and Potomac Electric Power took up the offer.

Why utilities? Because while boaters buy a hundred million dollars' worth or so of antibarnacle coatings a year, utilities spend billions to get rid of barnacles and the like from the tunnels used to bring ocean and lake water into their heat exchangers. Wentzell and Spera hope to get just a little piece of those billions. "I freak out thinking about it," says Spera.

Wentzell and Spera do not have the field to themselves. Unknown to Wentzell when he was mixing his first batch, Ferro Corp. had already started selling a somewhat similar product. But the Ferro product consists of pure copper in a polyester base. Wentzell claims that the polyester is more porous than the epoxy Epco-Tek uses, and that it tends to make fiberglass boats blister. Because of these problems and the protection afforded by his patents, Wentzell says he isn't worried by Ferro's challenge.

Since Wentzell's call four years ago, Spera has sunk about $300,000 into Hi-Tek. But the marketing and advertising needed to launch Epco-Tek 2000 in Florida this fall will be expensive. Six investment bankers recently bought a minority stake for $750,000; this will be used for advertising and to pay Hi-Tek's sales force, who must tour the marinas and show the local boatyard experts how to apply the paint.

Will Epco-Tek 2000 sell? "Nothing can stop it," says Wentzell confidently. But he and Spera also know that many good-idea businesses go down because they're undercapitalized. So they plan another round of financing in 18 months.

"I've learned," says Wentzell, "that it always takes more time and more money than you ever imagine." That's probably the best advice there is for anyone thinking about starting his or her own business. ■

Gordon White and James Hanson are sitting on one of the world's greatest cash hoards. Why hasn't Hanson put this money to work?

Don't rush us

By James R. Norman

FEW AMERICAN business people had heard of Gordon White or James Hanson when they made their first acquisition in the U.S.: Seacoast for $32 million in 1974. They have now. Taking advantage of the cheap dollar, the two partners, both now lords, bought and broke up a number of old-line U.S. conglomerates, including U.S. Industries, SCM and Kidde, and added to their own corporate grab bag Kaiser Cement and Peabody Coal. Last year their company, Hanson Plc., swapped its 49% of Newmont Mining to Sir James Goldsmith for 1.7 million acres of U.S. timberland. Today Hanson controls $8.6 billion worth of U.S. assets, which provide fully 50% of its worldwide revenues of $13 billion.

Gordon White, a lanky 68-year-old, runs the U.S. operations from headquarters on Manhattan's Park Avenue. He thinks in grand terms. Recalling the days when British investors controlled major chunks of U.S. industry, he says: "One of my goals is to get it back."

Lofty ambitions for two Yorkshire men, partners of 26 years, who started with small fertilizer, truck-leasing and printing companies. Indeed, White set up shop in the U.S. in 1973, after leaving Britain as a tax exile and deep in debt from buying Hanson shares that sank in value.

With consolidated assets of $20 billion and operating income of $2.2 billion, Hanson has become one of the world's largest conglomerates. In the course of its expansion, Hanson has taken over some impressive old British names: Ever Ready batteries (1982), Imperial tobacco (in 1986), Consolidated Goldfields (1989). Last May Hanson spent $240 million to buy on the open market a 2.8% stake in Britain's biggest industrial company, $22 billion (revenues) chemical giant ICI.

What makes Hanson different from other raiders is that it has never used junk bond financing. Thus it did not suffer greatly when the junk bond market collapsed after Michael Milken left the scene. Instead it has bootstrapped its way to ever-larger acquisitions, using its own assets for collateral for relatively low-cost bank debt. It now has $12 billion of debt, but that is offset by $12 billion in cash, much of it from selling pieces of companies it acquired.

What White and Hanson do for a living is make capital work harder, more efficiently. So why is Hanson's cash invested mainly through U.K. banks in commercial paper and CDs? Because British paper pays three or

four percentage points more than Hanson pays for its mostly U.S.-based debt. That makes for a nice spread—as long as the dollar doesn't appreciate against the British pound. Corporate assets, not cash, are where White ultimately wants to be invested. But fearing a depression, he says he likes his liquidity.

The money has put Hanson in an enviable position to play white knight to corporate damsels in distress—at a certain cost, of course, to the damsels. A case in point is Beazer Plc., a British-based home builder that went deeply into debt to buy U.S. construction materials giant Koppers Co. in 1988. Now hobbled with debt in a severely depressed housing market, Beazer's management last month recommended that shareholders accept Hanson's offer to purchase the company for one-third of its $2 billion book value.

Besides looking for other damsels, White says, Hanson would like to use its cash to do Warren Buffett-style equity investments: big blocks at preferential prices in well-managed companies that are looking for either more capital or someone to take a "friendly" ownership stake.

Donald Miller

David Clarke, head of Hanson's U.S. arm **His goal is to grow earnings of its old-line businesses at twice the inflation rate.**

Chris Davies/Network Maitrx

Lords James Hanson (left) and Gordon White **Masters at buying and selling companies, armed with $12 billion in cash.**

Unfortunately the White and Hanson style—blunt, sometimes confrontational—hasn't endeared the partners to the British establishment. Hanson's stake in ICI is regarded as in particularly bad taste. ICI has, in effect, told Hanson and White to get lost. To encourage them to go away, ICI management has proposed restructuring steps that have helped ICI shares appreciate by 7% since Hanson bought its stake. Says White of ICI's aloof management: "They are under the hammer. They have got to produce."

The same can be said for Hanson and White. Investors who once priced their company at a premium to the London market have cooled on them. Hanson's New York Stock Exchange-traded American Depositary Receipts nearly doubled in value between 1986 and early 1990, but since then they have merely marked time. Currently at 19⅞, the ADRs are selling at slightly more than 10 times likely 1991 earnings and yielding 7%.

The problem is that while Hanson's stable of rather dull industrial companies cranks out impressive returns (15% on equity last year), the assets offer little inherent growth potential. David Clarke, president of the U.S. arm, Hanson Industries, says Hanson aims to keep profits growing internally at least twice as fast as inflation. Right now the company is behind: This year profits are down in the U.K. and showing little real growth in the U.S. In addition, its interest spreads could narrow.

The simple fact is the dynamics of Hanson's growth depend heavily on continued acquisitions; Hanson adds value to assets by taking over companies and making them more efficient. It does so not by micromanaging, but by giving local management a free hand and tying their pay to return on capital. It's a system that encourages exit from lagging businesses and a sparing use of scarce capital. Hanson has spurred cost-cutting and has wrung piles of cash from old businesses. In one office supply company, Hanson cut inventories 40%—while revenues were doubling. Hanson also readily plows money back into companies when they can show a good return. That has given new life to once

Rough Tactics

IN BUILDING Hanson Plc. into a world financial power, Lord Hanson and Lord White have stepped on more than a few toes on both sides of the Atlantic. As far back as the early 1980s they had to respond to allegations of securities law violations. The complaint was made by an Argentinean investment adviser named Peter Bauer-Mengelberg. Bauer stated in U.S. state and federal court documents that he helped initiate the purchase of Gulf Resources & Chemical Co. shares for what he said he believed was the private account of Hanson principals Hanson and White. The stock was already held, Bauer says in court papers, by a Panamanian company called Siglo S.A., which he believed Hanson and White acquired a stake in through a friend of Hanson's. That was just before Hanson Plc. (then Hanson Trust) began buying an eventual 5% stake in Gulf Resources.

If true, those claims would imply insider trading by Hanson and White and a failure by their company to properly disclose its holdings.

White and Hanson have vehemently denied Bauer's claims. White, in court documents, has branded Bauer's charges as nothing more than "blackmail" by a "horrible little crook." Apparently agreeing, the SEC never investigated the charges. Bauer's family investment firm won a $480,000 judgment from Hanson Plc. in a New York court in 1983. That amount was for services rendered in connection with the purchase of shares in Barber Oil. Bauer had been an adviser to Hanson and helped the company acquire a number of stakes in companies like Gulf Resources and, he says, United Artists Theaters.

In its futile effort to thwart a takeover by Hanson in 1985, SCM Corp. tried to raise some of Bauer's claims against Hanson and White. But they proved irrelevant. Ultimately, an appeals court ruled in Hanson's favor in a landmark case that upheld Hanson's use of a "street sweep" to buy up nearly a third of SCM shares in a matter of hours in a transaction in which insider trader Ivan Boesky and other arbs participated. That allowed Hanson to block a defensive recapitalization of SCM by management and Merrill Lynch. The SEC had claimed that Hanson failed to wait the required time after the SCM tender offer.

Still pending is a class-action lawsuit by investors who bought shares in Smith Corona Corp. when Hanson sold a half-interest in the typewriter operations of SCM to the public in 1989 for more than $300 million. Soon after the shares were floated, the company announced falling sales and major layoffs. The stock plunged. The suits claim Hanson officials knew there was trouble ahead when they flogged those shares. Hanson denies any wrongdoing. The suit is still being litigated, but one thing is clear: Included in White and Hanson's takeover tools is good legal advice. –J.R.N. ■

moribund companies like Kidde's Grove hydraulic crane unit and Jacuzzi spa baths.

Not all of the gains, moreover, come from improvements in operations. Hanson uses some interesting accounting techniques to enhance earnings when it makes acquisitions. Some analysts figure that as much as 20% of Hanson's reported profits comes from the way it accounts for its purchases.

A prime example is Peabody Coal. After acquiring Peabody for $1.2 billion last year, Hanson marked up the value of Peabody's coal reserves from a book value of $1 billion to $3.1 billion. It used that writeup to cover the creation of $1.8 billion of reserves, mainly for environmental and retiree health benefit costs. That way Peabody didn't have to divert operating earnings into funding the reserves. The net effect, by one analyst's reckoning, will be to increase Peabody's operating profit by almost half, to around $300 million this year.

The recent addition of new outside directors could put a damper on White and Hanson's freewheeling style, epitomized by a $14 million loss for the company on an investment in a horse farm, in which White also had a personal stake.

Considering all this—lagging earnings growth and stock market disillusionment—analysts say Hanson has to keep doing big deals. But White the dealmaker is cautious. White says he has been convinced for some time that the stock market is overvalued and due for a tumble; he says he doesn't want to commit Hanson's funds prematurely.

Therefore, rather than bidding for acquisitions, the Hanson partners prefer to sit on their cash and ignore for now what the stock market thinks of them. "I thought all of these debt-ridden companies would find themselves in trouble by now," says White. "I can't see us coming out of recession anytime soon. I think there'll be more and more [company failures]."

To those out of patience with the Hanson/White waiting strategy, Gordon White has this to say about Hanson's rich but relatively sterile cash hoard: "You mustn't let it burn a hole in your pocket." ■

Can the Rush of Technology Help Define What a Luxury Car Should Be?

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ase is a computerized suspension system. Here, dual-rate gas ressurized shock absorbers and air springs are electronically egulated to optimize ride and handling. The result is a reassuring ense of confident control and an extraordinary sense of riding comfort. To this, add the stability of computer-controlled four-wheel disc anti-lock braking (ABS). The precision of computer-egulated speed-sensitive power steering. The peace of mind of a driver- and passenger-side air bag Supplemental Restraint System. Add, in brief, a keenly proficient array of microprocessor-managed driving systems. Systems that help make Continental one of today's most advanced luxury cars. Something well worth talking about.

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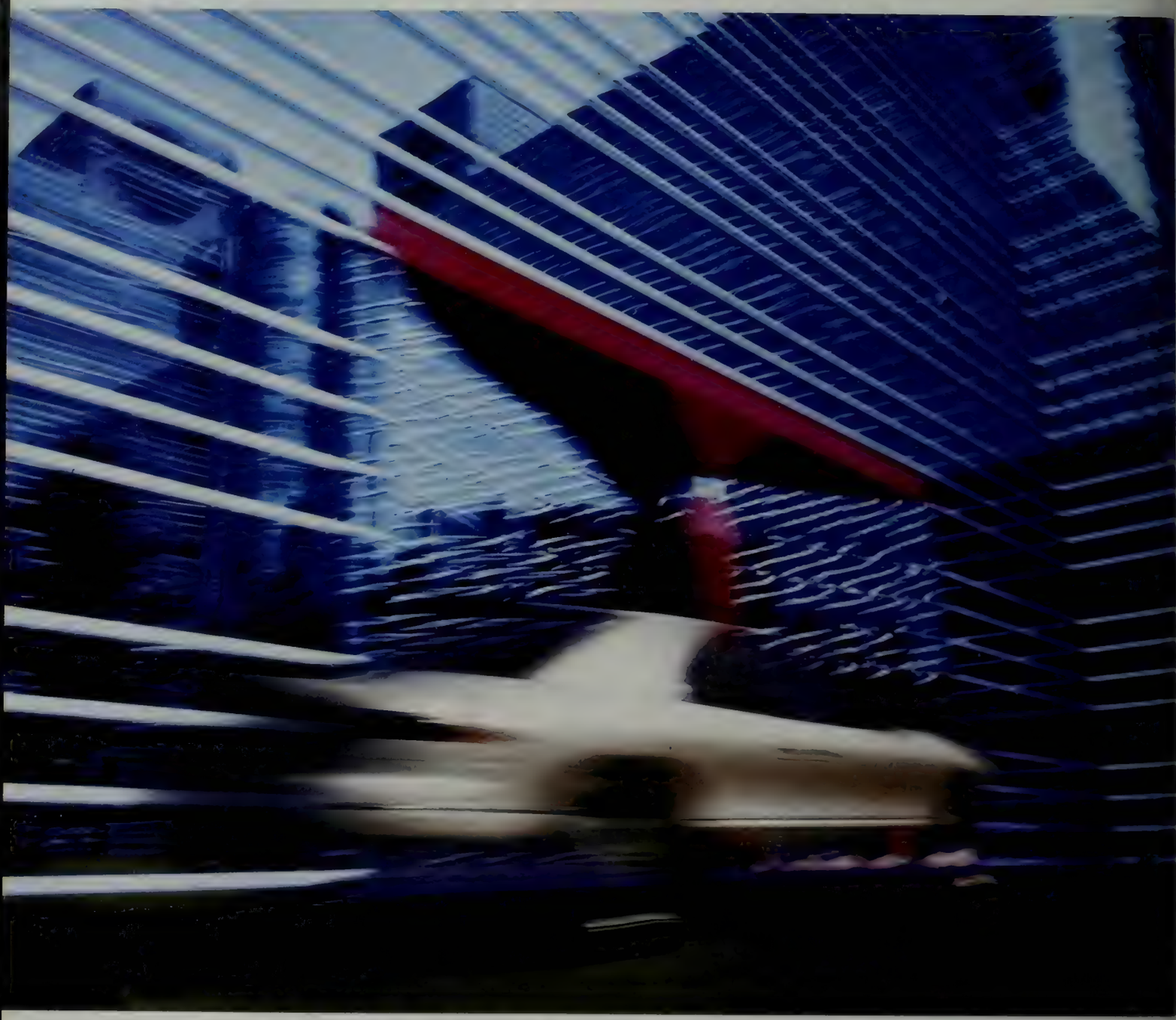

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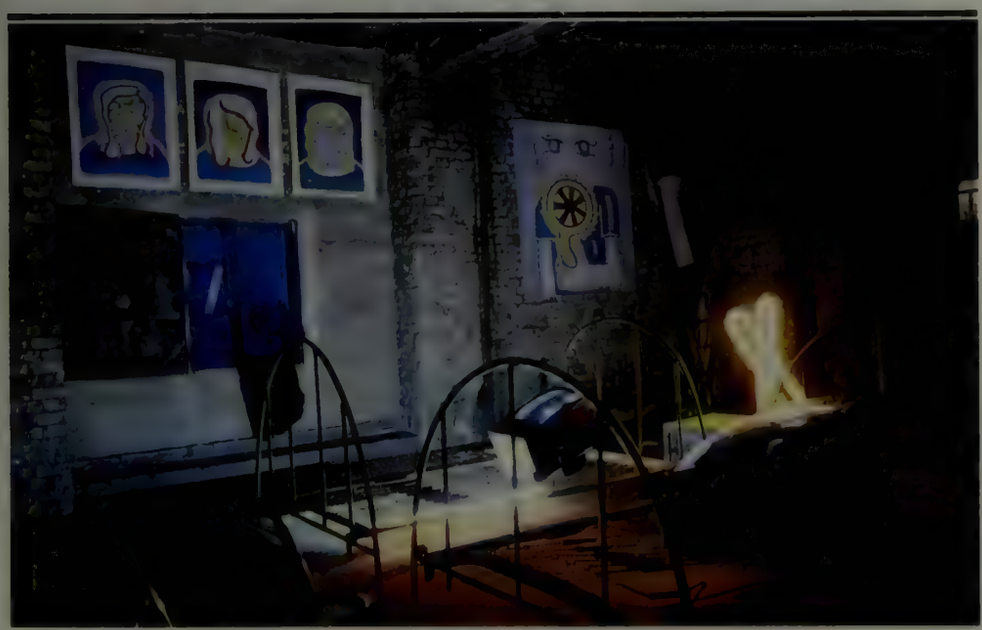
LINCOLN-MERCURY DIVISION

The big auction houses bet that Berlin would regain its old status as an international art center. So far, disappointment.

Berlin's fading euphoria

By Richard C. Morais

Photographs by Patrick Piel/Gamma Liaison



Trash art in East Berlin's underground
Berlin as art center hangs on such work.

"I AM VERY disappointed," says H. Josef König, manager of Sotheby's Berlin. He is sitting in the auctioneer's brand-new East Berlin offices, fashionable but barren rooms in the Palais am Festungsgraben on Unter den Linden. Somewhere out in the office a single phone rings. All in all a desolate scene.

A lot of smart money rushed into Berlin moments after the Wall fell. In the rush were auctioneers like Sotheby's and dealers, expecting Berlin to quickly regain its 1920s position as Europe's thriving art market for White Russian heirlooms, Oriental and Islamic art. Reasoned the pros: Berlin was the "gateway" to the East's hidden treasures. The movement prompted magazines like *Business Week* to gush that "Berlin is on the verge of an artistic Renaissance."

Reality. Sotheby's had its first Berlin auction in May. At first blush a moderate success. It managed to move $4.4 million of 20th-century German art, not embarrassingly below the $6 million estimate. Christoph Graf Douglas, director of Sotheby's Germany, rushed out a glowing press release. The auction, however, was neither particularly international (only 5 lots were sold to non-Germans) nor a very rosy harbinger of things to come. Of the 105 lots at the auction, just 7 came from East Germany, confirming a depressing truth: After hyperinflation, the Nazis, then the Communists, East Germany is devoid of important private collections. "There are no hidden treasures in East Germany," says König.

Now it's rough-and-tumble as all the auction houses try to justify their new expenses by chasing the same sliver of business that existed before the Wall fell. Villa Grisebach, a fairly new auction house, is holding biannual auctions in the old capital. Christie's has plush offices on the expensive Fasanenstrasse but is shoveling finds back to London. Lempertz, the oldest and largest German auctioneer, with turnover around $27 million, has a modest office in East Berlin, moments from Sotheby's.

The desire that Berlin become the nation's art center is understandable. Germany is a hard market for auctioneers. In Japan and France, the art market is centralized in Tokyo and

Paris. But in Germany the two British auction giants have found it necessary to establish a number of regional offices—in Munich, Hamburg, Frankfurt, Cologne and Düsseldorf. Why? "If you go into small villages in Baden-Württemberg, you will find very wealthy, provincial industrialists living in modest houses," says Graf Douglas. "They don't show their wealth, and it is hard to reach them through London." The auctioneers believe only local hand-holding can tie these provincial collectors into the international market.

An expensive way to operate is further aggravated by a cautious approach to collecting. Jörg-Michael Bertz, head of Christie's Germany, says that Germans wouldn't think of buying a $5 million painting. They tend to collect pieces around the $60,000 mark. It's a hard way for an auctioneer to make a living.

Currently, the strongest art center is around Cologne and Düsseldorf, where an army of major galleries (like Gmurzynska, Karsten Greve, Orangerie-Reinz) represent Germany's internationally respected contemporary artists. Cologne is not likely to roll over dead for Berlin. Indeed, the famous Cologne dealers are heading in the opposite direction—Paris—to open galleries. Says Henrik-Rolf Hanstein, director of Kunsthaus Lempertz: "The Berlin euphoria has to adjust to reality."

Many hopes were pinned on the fact that Germany's government would soon be moving back to the former capital, pumping billions of marks into the city. But that promise seems to be on hold. The *Frankfurter Allgemeine Zeitung* was just informed by a leading politician that the move to Berlin will take 12 years.

Christie's is coy about how much business it does in Germany. Sotheby's, a little less so. Graf Douglas says it costs some $2.4 million to run the German operations. Collectively the offices export $30 million to $60 million (pieces sent to sales in London or New York); domestically, Graf Douglas hopes to finish the year with $12 million in sales at the Munich and Berlin auctions.

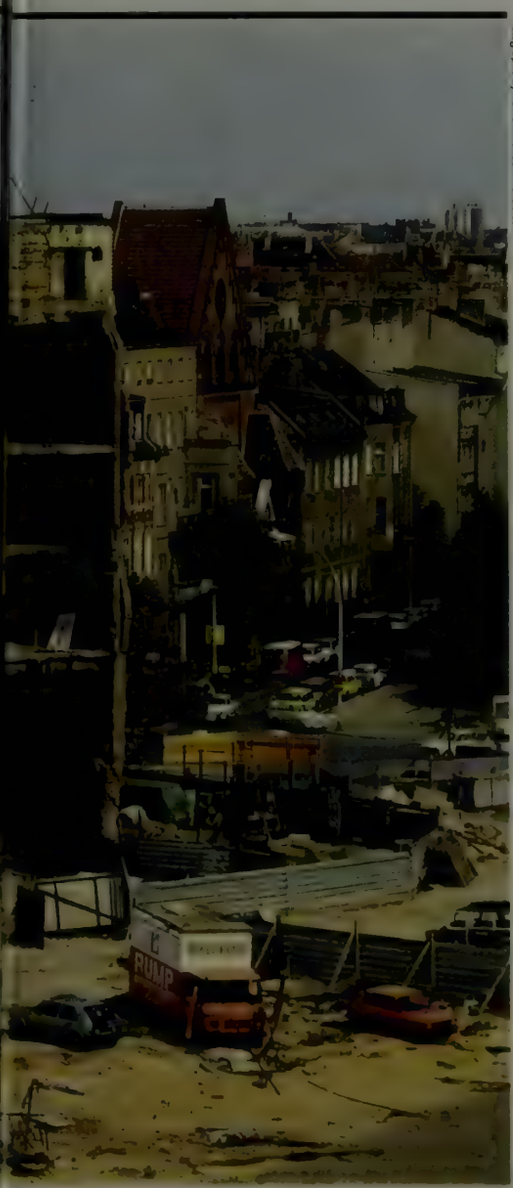
If a brilliant new generation of artists crawls out of the cracked buildings of East Berlin, then major galleries will move to Berlin, international collectors will follow, and the auction houses will ride the crest.

Are such hopes realistic? A FORBES reporter gingerly made his way to East Berlin's much-talked-about Tacheles, a condemned building that was seized by skinhead squatters and turned into an artists' hangout. In the garbage-riddled back lot of a *Clockwork Orange* nightmare, a van had been set on fire. Inside the building dolls were splattered with paint and hung from the rafters. A girl with a shaved head answered questions in a catatonic monotone and ate plum cake. Tacheles' "projects" are now heavily subsidized by local government.

LEFT:
H.J. König, manager of Sotheby's Berlin
BELOW:
Tacheles, home to skinhead artists. "The Berlin euphoria has to adjust to reality."

Professionals aren't impressed. In West Berlin, Kyra Maralt, partner at the fashionable Galerie Loulou Lasard, sits in her kitchen naked but for a towel wrapped around her midriff. "Everyone is painting the Brandenburger Tor. It's boring," she tells us. Brigitta von Wollinsky, her partner, has two rings through her nose, and a man in black is whipping her hair into a beehive. "The trash artists aren't ripe yet," says von Wollinsky, sticking a toe into the fur of the smelly German shepherd at her feet. "East German artists have to educate themselves, and that takes time. Lots of time."

As an art center Berlin has a long way to go. The scene is now dominated by West Berlin provincials, East German socialist realists and immature nihilists. Says Graf Douglas: "It takes more than rebuilding houses to heal a nation. It is only whole when its cultural fabric is back in place." ■



Photographs by Patrick Piel/Gamma Liaison

Ronald Burkle's father had wanted him to become a dentist, which goes to show how little some parents understand their offspring's natural talents.

The boxboy's revenge

By Matthew Schifrin

In 1981 Ronald Burkle was 28 and still working for Stater Brothers, the southern California supermarket company where he had started boxing groceries after school 15 years earlier. His father was then the president of Stater Brothers. While proud that his son had progressed from boxboy to vice president in charge of administration for Stater's parent, Petrolane Properties, the father had hoped Ron would go to dental school.

Dentistry didn't come to pass, but dealmaking did. Ron Burkle went on to found Yucaipa Cos., a leveraged-buyout firm specializing in grocery stores. Today Yucaipa's five partners have amassed about $220 million among them. Burkle, as the largest holder, controls a stake estimated to be worth about $100 million.

As a predental student at California State Polytechnic University, Burkle had become interested in the stock market. After dropping out in 1973, he began a management career at Stater Brothers, but he played the market as much as he could.

The market was a good place from which to watch the first wave of leveraged buyouts in the late 1970s. Pretty soon Burkle got the itch to try a deal himself. His chance came in 1981 when Petrolane decided to sell Stater Brothers. Burkle accumulated financial backing from his father and other members of management. Berkshire Hathaway agreed to put up half the equity: Burkle and his father have long been friendly with its Vice Chairman Charles Munger, whom they met when he ran a supermarket-related business.

Burkle's inexperience cost him the deal—and his job. His buyout team offered Petrolane 22% less than what the seller's investment bankers had promised they could get for the company. The low bid from management infuriated Petrolane, which was forced to lower its asking price for Stater Brothers. The day the Burkle bid was rejected, Ronald Burkle and another manager were told to clear out their desks. (Petrolane later sold Stater Brothers to another group of investors who took it public.)

"Back then," says Burkle, "I didn't know what it meant to play hardball."

But he learned. Liberated from his job, Burkle bought a small candy company and then a Chevrolet car dealership in southern California.

Mostly, though, he stuck to supermarkets. He invested his and his family's money in supermarket stocks, profiting as chains consolidated in the early and mid-1980s.

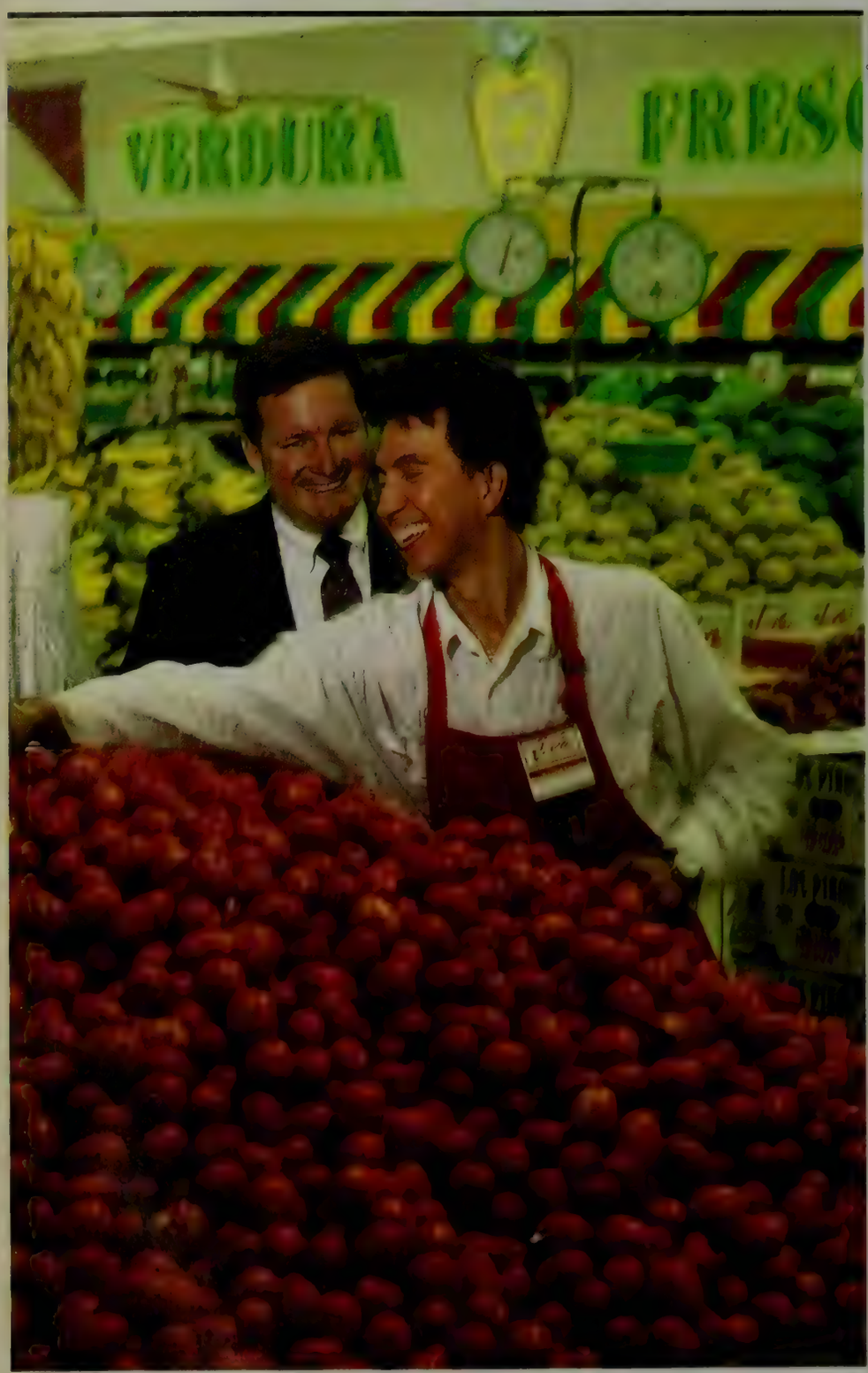
In 1986 a group of investors, including Burkle's father, made another run at Stater Brothers. It was now publicly traded, and Burkle's group went after it with a proxy fight against Stater's managers. They lost and investor James Cotter (Forbes, *Mar. 6, 1989*) came in as white knight and bought half the company.

In December 1986 he finally bought a grocery chain: smallish Los Angeles-based Jurgensen's gourmet food chain. Using junk bonds, Burkle went on to purchase several midsize California grocery chains, including Cala Foods, Boys Market and ABC Markets. With his latest acquisition—the $250 million buyout of 142 Alpha Beta stores from American Stores in June—Burkle is now second only to

Vons in the number of supermarkets owned in the greater Los Angeles area. Yucaipa now owns 259 supermarket outlets that gross in excess of $3 billion and employ 25,000 people.

The company is, of course, heavily leveraged. With help from Bankers Trust, Citicorp and Manufacturers Hanover, Yucaipa owes over $500 million. But so far it is handling it. Private placement documents show that Yucaipa's operations generate about $115 million in cash flow and cover interest expenses nearly twice.

Though Burkle was born and bred in suburban California, his businesses are often in inner-city black and Hispanic neighborhoods, areas vacated by other supermarket companies like Vons. Burkle targets neighborhoods like Watts and East Los Angeles with stores called ABC, Boys Market and Viva. These stores typically cost more to operate because of increased security costs. But they can also charge higher prices, if they provide what the customers need. "Our armed guards at our downtown stores are not in there to protect us from theft," says Burkle. "They are in the parking lots to protect our customers."



Scott Binnegar

Yucaipa's Ronald Burkle and a produce clerk at Viva in Santa Ana

Target marketing and lots of leverage as a formula for rapid growth.

Burkle has managed to maintain good relations with the labor unions that control most of southern California's food distribution chain. For example, instead of merely shutting down some 40 marginal Alpha Beta stores that Yucaipa acquired in June in Los Angeles, Burkle plans to convert at least 29 to Hispanic-oriented Viva stores and will probably keep the rest open as well. In return the union, the United Food and Commercial Workers, is asking its employees to give up certain holidays carrying triple-time pay. The unions are also considering a training wage below the UFCW $8 per hour starting wage.

At the other end of the economic spectrum, the young dealmaker has also forged good relations with several top financiers, including Mike Milken, Leon Black and George Soros. A group led by Soros recently became the first outside investor in the Yucaipa grouping, investing $75 million in equity in Food 4 Less Supermarkets, Inc., the holding company that controls most of Yucaipa's supermarket investments.

Burkle recently sold Almac's Rhode Island grocery chain to former Gibbons Green partner Leonard Green. Yucaipa netted $75 million on its $5 million investment in just two years, and was able to reduce its debt load. People who know Burkle think this sale presages another bid for more supermarket outlets.

Possible target: Stater Brothers. It is now 50% owned by NYSE-listed Craig Corp., which in turn is about 40% controlled by James Cotter and affiliates. Stater's 105 stores are mostly outside Los Angeles in the booming San Bernardino and Riverside counties, a territory Burkle knows well. He lives in Yucaipa, a fast-growing city in San Bernardino county, and owns a lot of real estate there. Will the third time be the charm?

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Older, wealthy couples are buying one-payment life insurance policies. Are they a good buy? Here are the advantages—and the pitfalls.

Lump it or leave it?

By Carolyn T. Geer

GIVEN THE certainty of death and the near-certainty of rising taxes, it makes sense for well-heeled families—if they are fond of their progeny—to buy plenty of life insurance, since a policy, if it's properly structured, pays a tax-free benefit to heirs. For this purpose some people prefer one-payment policies, where a single payment is supposed to buy protection for the rest of the insured's life. On the face of it, lump sum life looks like a bargain: life insurance at a discount. The single premium, paid right now, will be considerably smaller than what you would pay over your expected life span on regular cash-value life insurance.

Why the discount? It reflects the time value of money. The insurance company figures it can invest the lump sum with a return sufficient over the insured's probable life to cover all the annual premiums he would have paid, explains Thomas Kappenman, assistant vice president for Ameritas Life Insurance in Lincoln, Nebr.

Let's take an example: a 65-year-old nonsmoking man. At Ameritas he would pay $43,000 a year for a life insurance policy with a $1.5 million death benefit. By choosing a one-payment option, he could pay a lump sum of $425,000. That is, for $425,000 paid out today, he figures his heirs will get $1.5 million tax-free sometime in the future. If he paid for the same insurance with level premiums and lived 20 years, he'd have to pay out $860,000.

More precisely, the $425,000 goes into a fund to pay premiums. The first year, a small portion is withdrawn to cover the premium on a $1.1 million life insurance policy. If this customer dies during the first year, his heirs get back the policy face value ($1.1 million in the first year) plus most of the lump sum, $1.5 million in all. Over the years the fund shrinks as money is withdrawn to buy larger death benefits. Either way, whether the buyer pays $43,000 a year for life or pays $425,000 once, his heirs are supposed to get $1.5 million.

Since none of us knows when the grim reaper will call, it makes sense to be insured against his early arrival. But life insurance is no more a homogeneous product than are cars or shoes. Different policies have different features, and different companies have varying financial strengths and investment records.

Here are some facts your insurance agent may not volunteer but which are important for you to understand:

If it turns out that the insurance company is able to earn more on your lump sum than it originally figured it could, what happens? In the hypothetical examples from Ameritas—whether funded with a one-time $425,000 or with an annual $43,000—better-than-expected results by the underwriter would mean that your policy would pay off at better than $1.5 million. Other underwriters share the benefits of good investment returns by making their level-premium policies fully paid up after only, say, ten years.

Chas B Slackman

But what if the insurance company earns less than it assumes? Ah, warns Kappenman, there's a catch here. The one-payment-plan contracts give the insurer the right to come back to the insured and ask for more money. (Alternatively, the insurer may reduce the policy's death benefit.)

The insurer's investment return is just one of the unpredictable factors that affect what you get out of an insurance policy. Another is mortality experience—whether this underwriter's customers happen to die sooner or later than expected. But, in most situations, the investment re-

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turn is the big imponderable.

Rate of return is a complex issue. If, say, interest rates drop sharply, the insurance company could score some capital gains on its bonds but would eventually have to reinvest at lower yields than it expected. Depending on how long you live, this bullish shift in the bond market may or may not work to your benefit.

In short, you cannot really predict how your policy is going to perform. But you can take a close look at the investment return assumption made by the underwriter when it prices the policy. Is the assumed rate unrealistically high? Then you'll probably have to put up more money somewhere down the line.

"It's amazing to me, but most people are convinced that if they buy a one-payment policy, they'll never have to pay another premium, and that's not true," says Lee Slavutin, an insurance agent in New York.

Slavutin cites a specific example, using a second-to-die policy (where husband and wife are both covered but the heirs don't collect until both die). A healthy 65-year-old man and 60-year-old woman might be quoted a lump sum rate of $144,000 for a $1 million second-to-die life insurance policy. That amount assumes the insurance company can continue to credit the policy with a 9.5% return every year—not a very realistic assumption in today's interest-rate environment. If instead the money earned only, say, 8.5%, that same policy would require two additional payments of $21,000 each.

"Some companies are more aggressive in their illustrations than others," says Wallace Head, a tax expert at Arthur Andersen. That's why he frequently asks insurance companies for several illustrations on the same policy based on different assumptions. Head isn't saying don't buy a one-payment policy. He is saying that consumers interested in this option should explore several possible outcomes, and not merely accept the one painted by the salesman.

Don't confuse these relatively new one-payment policies with the "single-premium" contracts that were heavily promoted in the 1980s as tax-sheltered investments. In the case of the single-premium policies, the buyer really did make only one payment. But he wasn't buying insurance so much as he was buying a means of deferring income taxes. In any case, Congress closed the single-premium policy loophole in 1988, and the product has almost disappeared.

Today's one-payment policies have a very different sales pitch. They are not for investors looking for income tax deferrals; they are for older wealthy couples who buy second-to-die or survivorship life insurance with the goal of providing their heirs with cash to pay the estate taxes due after the second spouse dies. (In general, no estate tax is owed after the first death because of the unlimited marital deduction.)

Chas. B. Slackman

Currently, one-payment life insurance has some tax advantages. One is that the upfront money invested effectively earns a tax-free return. That $425,000 you spend to buy the Ameritas policy is invested, with earnings used to buy conventional life insurance. But these earnings never show up on your income tax return. They are tucked away under the shelter of insurance, a traditionally tax-favored investment.

There's another tax angle used by agents who push one-payment policies. If the policy is owned by your heirs, the money you spend on the premium constitutes a potentially taxable gift to them. Now, everybody is entitled to give away or bequeath $600,000 free of estate/gift tax. That's under current law. But there's always the fear that the politicians will limit or repeal this exemption. Sensing this fear, insurance agents have been telling clients to buy a lot of second-to-die and pay for it now, in one big payment that can be sheltered by the exemption. (A $600,000 lump sum payment, incidentally, could buy a second-to-die policy with a $4 million death benefit for a healthy couple in their 60s.) That way, the credit is used up before the pols can take it away.

Arthur Andersen's Head brings up an interesting point in response to this sales pitch. Since it is common to put estate-building insurance policies in an irrevocable trust, there is no need to buy the insurance all at once. Contribute the $600,000 to the trust and use up your lifetime estate/gift tax exemption. Let the trust invest the money and use the earnings to buy conventional life insurance. Drawback: The trust has to pay income tax. You lose that shelter on money invested under the umbrella of an insurance policy.

There are other subtleties to beware of. What if you buy a one-payment policy for $425,000, then die a year or two later? Your heirs would have been better off had you bought a conventional $43,000-a-year policy instead and put the rest of your lump sum in the bank.

Bottom-line time. Should you buy one-payment policies? Sorry, there is no simple answer. Insurance products are too complicated for simple answers. The best advice is to look carefully at what the salesperson is selling, and then ask him or her lots of "yes, but" and "what if" questions. ■

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Why did the Comptroller of the Currency close his eyes and help aggravate the U.S.' worst-yet bank failure?

A few questions for Mr. Clarke

By William P. Barrett

AT PRESS TIME the U.S. Senate was considering the nomination of U.S. Comptroller of the Currency Robert Clarke to a second six-year term as the nation's chief national bank regulator. A former Houston bank lawyer with many influential Texas friends, Clarke is the chap who has been telling the nation's banks to get tough about whom they lend money to—too tough, some people think. But he is something of a latecomer to zealousness about loan quality.

In 1987 his office blessed the merger of Dallas' InterFirst Corp. and RepublicBank Corp. into First RepublicBank. The combination created the nation's 12th-largest bank holding company, with assets of $33 billion. Also created: the biggest bank bailout ever. First Republic collapsed from bad loans just 14 months later, costing the feds an estimated $3 billion and investors another $1 billion.

The investment banks involved, principally Goldman, Sachs & Co. and Morgan Stanley & Co., are facing big-time shareholder lawsuits over their alleged cover-up of derogatory information about the weakened state of the two banks, particularly Republic.

Clarke should thank his lucky stars that he and his agency enjoy civil immunity for their official actions. FORBES has obtained a comptroller's office memo dated Apr. 9, 1987, reviewing the proposed merger. The memo, by examiners Nancy Cody and Richard Erbs, said flatly that Republic was filing false financial statements and was in serious danger of failing. Clarke's office approved the merger anyway—greatly exacerbating the losses for the Federal Deposit Insurance Corp., on whose board Clarke sits.

Small wonder the gloomy statements in the seven-page document, stamped "confidential" on every page, were kept from the investing public. Here are some excerpts from the memo about Republic and the proposed merger:

"Weakened by asset-quality problems to the point where failure is a distinct possibility."

"We cannot conclude that the company has properly classified problem credits or that the company's financial statements are an accurate reflection of its true condition."

"Classified assets are at an unacceptable level. The company has failed to accurately classify problem credits."

"It is likely that the erosion in asset quality will continue and that criticized asset levels will continue to rise."

"Republic's profitability could be considered extremely poor with no positive prospects in the near future."

"The writers are not convinced of the viability of this merger."

Pretty strong words. They come perilously close to alleging outright fraud at Republic. Yet Clarke's office let the deal sail through, according to an Apr. 14, 1987 letter by Deputy Comptroller Emory Rushton, on the dubious grounds it "could . . . probably provide more time."

Before the merger, investors considered Republic the stronger of the two banks. By assigning Republic the same bottom-rung quality rating as InterFirst, Clarke's examiners realized the truth: Republic was not better. The memo details Republic's quaint habit of advancing money to troubled real estate developers so they could "pay" their loans.

Other federal regulatory agencies, including the Federal Reserve, which oversees bank holding companies, also signed off on the deal. But Clarke's agency regulated each bank holding company's lead institution and by agreement was the point man for government reviews.

What does Clarke have to say? His spokesmen maintain Clarke had no legal or moral obligation toward the sucker investors who relied on these government approvals and bought $200 million of new stock and notes for the merger, or those who bought and sold shares afterwards. Here's a decision-making process that could stand a bit of airing.

Comptroller of the Currency Robert Clarke
What was he thinking?

Special Advertising Supplement

EDUCATING AMERICA

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Education's Entrepreneurs

Looking for risk-takers committed to improving schools? They may be the best place to invest your money and your time. You'll find these individuals in every district, trying new ideas, shaking up the status quo.

In This Special Report

- Education's Entrepreneurs
- CEOs Speak Out
- Teach For America
- A Report From The Trenches

A curious thing is happening on the road to school reform. Leaders who once talked about "restructuring" are now talking revolt. Even President Bush, in launching *America 2000*, his plan to improve the nation's schools, declared: "There will be no renaissance without revolution."

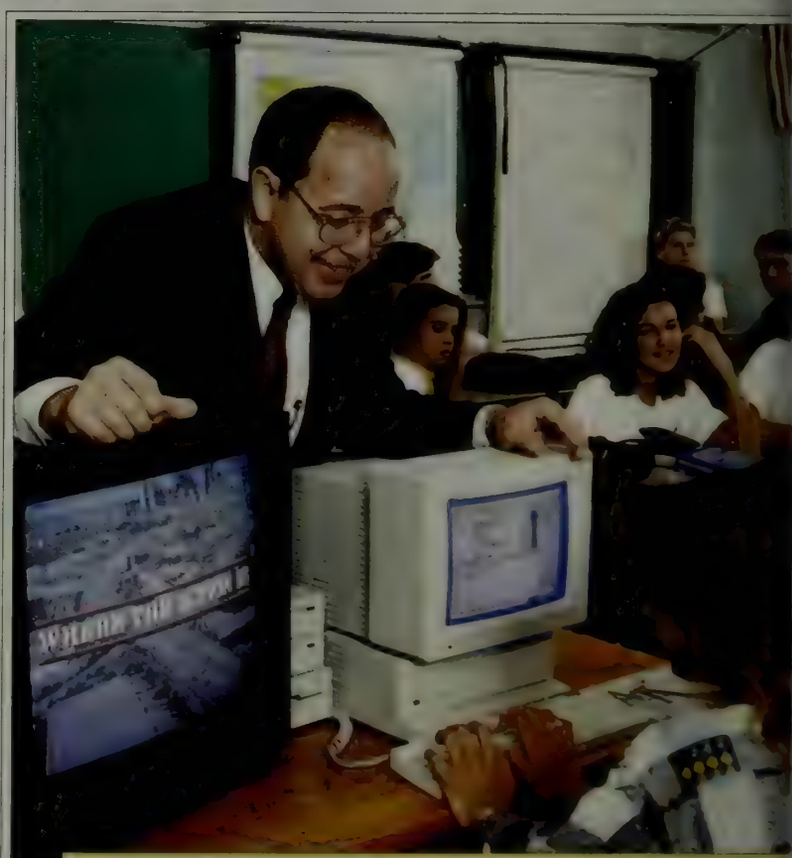
When Louis V. Gerstner, chairman and CEO, RJR Nabisco, launched the company's $30 million initiative, *Next Century Schools*, he insisted the money go toward "arming the insurgents" and invited "guerrilla educators" and "china breakers" to apply for grants to "stand the system on its head."

David Kearns, former chairman of Xerox and recently confirmed as Under Secretary of Education, in his book *Winning the Brain Race* salutes those educators who are "canny outlaws, system beaters . . . responsible rule benders."

Betting school reform on the rule-breakers begs the question: Are there enough risk-taking educators in school systems to pull off the revolution? Kearns concedes that school bureaucracies stack the deck against "creative, imaginative, entrepreneurial teachers." But every district and school has a handful or more of teachers who are reformers, too, and are as frustrated with the system as the people who get the headlines criticizing schools. Meet just a few of them.

"Looking for Risk-takers? We're Out Here"

Gary Gallagher, social studies teacher, We Junior High School, Ponca City, Oklahom says, "Not every educator is the uninspired robot some school critics make us out to be Some of us aren't afraid to fail, to try new ideas. We're happy to connect with busines and foundations that want to work with us." Such individuals may not be universally loved within school systems, says Gallagher



"My Classroom is a Hi-Tech Intellectual 'Romper Room,'" says Ponca City Teacher Gary Gallagher.

"I push for change, and change is painful."

His job, according to Gallagher, is "to provide each student with the very best educational opportunities I know how, and help

By Leanna Landsmann & Mary Harbaugh

To some kids this is a new source of electricity.

To most kids it's a lime.

But to kids and teachers in Bell Atlantic-sponsored school science programs, its chemical content and caloric values can produce electrical energy.

At Bell Atlantic, we believe in giving kids new ways to look at the world. Which is why our employees volunteer in school science programs. And why the Bell Atlantic Charitable Foundation and Bell Atlantic companies partner with organizations like the American Association for the Advancement of Science to sponsor science programs for both kids and their teachers.

We believe if we spark their interest in science today, our children will be able to create a better world for tomorrow.

Bell Atlantic
We're More Than Just Talk.

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CEOs Speak Out

Being a caring citizen is both a corporate and an individual concern. Through corporate cash donations and volunteer support, business can make significant contributions to improving the quality of life for all members of society. Education is the vehicle by which that goal is reached.

The need to enhance educational programs is so immediate that Toyota has targeted education as its primary philanthropic focus, with special emphasis on programs that encourage teaching and learning of mathematics and the sciences. The programs we support range from minority scholarships and vocational training to professional development of teachers, teaching materials and environmental science services. Business and society must be partners. By vigorously and consistently supporting education, business can help to improve our society for this and future generations.

YALE GIESZL,
Senior Vice President
Finance and Administration
Toyota Motor Sales, U.S.A., Inc.

JOE WHELAN, FORMER PRINCIPAL OF CLEVELAND'S CHAMBERS ELEMENTARY, ACCEPTING THE NATIONAL SCHOOL FOR EXCELLENCE BLUE RIBBON AWARD FROM PRESIDENT BUSH AND FIRST LADY BARBARA BUSH

that student learn to take responsibility for seizing them." Gallagher never lets an opportunity to improve his teaching go unseized. A successful computer salesman before turning to teaching history, Gallagher has equipped his classroom – through grants and gifts – with computers, a VCR and other equipment "every classroom should have in the 1990s. My classroom is a hi-tech intellectual 'Romper Room' – it's got to be if I'm going to motivate kids to study civics."

Gallagher participated last spring in a test program of AT&T's *Voices that Count*, an interactive newspaper polling program that enables students to register their opinions via an 800 phone number on such issues as censorship and national youth service. "Students really got motivated," says Gallagher. So much so, that some want to present the Oklahoma state legislature with a proposal to make community service a high school graduation requirement. "We may succeed, we may fail – but the process will teach them more about government than an entire textbook."

"Let Me Try My Idea With the Kids Who Are Toughest to Motivate"

Few teachers would do what Darlene Chorney, a teacher at Oak Park and River Forest, Illinois, High School did. She noticed that some kids in her "We Make a Difference" Service Club, which involv students in community service project succeeding in ways that they were not their regular class work. What if these dents had a whole curriculum that inv them in community service day-to-da Would they stay in school? Would the study? She wrote a "service-learning cu lum," took it to school administrators made a deal. " 'I'll take the kids most a of dropping out if you'll approve this f year.' I got the approval and even thou money's tight, we're getting small gran pay for things like transportation to an service sites. We can't let lack of will, l money, or lack of imagination stop us helping students who – because of fam problems – have been beaten down. T program will help kids learn that they ally good people. They have to learn t fore they want to learn math or scienc

Talk with Sister John Ann Proa science department chair at Bishop Co High School in Levittown, Pennsylvan and "insurgent" isn't the first word tha comes to mind. But her awards and pr clips attest to a commitment to one bi of the school reform agenda: get mor dents, especially girls, to study more s She and two colleagues got a grant fro GTE Foundation, with supporting fu from such companies as Raytheon div D.C. Heath, to create a year-long pro

By the time he's 21, we'll plant 20 million new trees.

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We produce something called purified cellulose. A product that goes into making your eyeglass frames. And cosmetics. Your detergent and toothbrush. ITT Rayonier is a leading producer of cellulose from wood, with over 1.2 million acres of timberland. And each year, we renew our forests. Planting new trees to insure a never ending supply of wood. There are nine businesses in ITT. This is the one that helps you live better.

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America's ability to retain our lead in technology depends on our determination to regain our lead in education. Today, there is a critical shortage of qualified math and science teachers in grades eight through twelve. As a result, our kids are graduating from high school unprepared for the challenges of the future.

At a time when more jobs require technology-related skills, our schools are producing fewer technology-competent people.

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What Rockwell is doing.

One solution to the problem is people like Bill Williams. Bill is participating in a pilot program to qualify retired Rockwell engineers as certified math and science teachers.

He already knows the subject and how to apply it to real world problems. Now he's back in school learning how to share his love of technology with a roomful of teenagers.

We're counting on our retirees to turn a lifetime of experience into the experience of a lifetime. Because what they know can't be learned from books alone.

What you can do.

Helping retired employees to become certified math and science teachers is one of hundreds of ways you can encourage American innovation and leadership through quality education. For more information, simply write Rockwell, P.O. Box 905, Dept. FBJ , El Segundo, CA 90245-0905 for printed information created in cooperation with the National Association of Partners in Education (NAPE).

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ELECTRONICS AEROSPACE AUTOMOTIVE GRAPHICS

Rockwell is a $12 billion company with more than 100,000 employees worldwide. Our people have a common goal: Understanding our customers and satisfying them with the innovative application of science and technology. We never stop reaching higher.

CEOs Speak Out

It is sadly ironic that the nation with the greatest infrastructure in the world, a country with the most libraries and computers, ranks near the bottom of Western nations in literacy. Even among high school and college students, communications skills are poor: Less than half of high school seniors read at levels able to carry out complex tasks; 80% have inadequate writing skills.

While debate will rage over the reasons, Smith Corona is committed to help: First, through sponsoring numerous scholastic writing contests as well as Academic All American programs that honor academic and athletic ability.

As an example, Smith Corona's laptop education program is being credited by teachers for improving writing skills, encouraging composition and making students better thinkers.

Because of our century of providing information processing technology in the service of writing and communications, Smith Corona has a unique perspective on the issue of literacy. Frankly, we believe that through investing in our youth, we are helping to develop a valuable skill – communications – that will only grow in value.

G. LEE THOMPSON
Chairman and CEO
Smith Corona

studying pollution levels in local waterways. The course shows students what a career in science might be like by integrating English, science, math and computers into "the work that a scientist does. The program helps girls see connections between subjects they're studying and careers they may pursue."

No Money for a Science Lab? "Sell" Bricks to Build It

In Fairmont, West Virginia, East Dale Elementary's "trophy case" is packed with awards for excellence, including the Department of Education's National School Recognition Program. Listen to Principal Janet Crescenzi and you'll know why. "We can't rest on our laurels. Many kids need so much help to succeed in school. We simply have to go the extra mile to provide it." And she does. The school needed a science lab but there was no money for construction. Solution: Crescenzi "sold" bricks, "like they do when building a hospital. People got acknowledged for their purchase. I sold them to individuals, to corporations – to people just passing through. Lots of people could afford a brick." She got Industrial Resources, a local company, to contribute the steel, engineering and labor.

Crescenzi's tenacious support for her teachers was a factor in the selection of East Dale as a Professional Development School by the Benedum Project, a West Virginia initiative to improve teacher training in the state.

"If You Operate a School, You've Got to Act Like a CEO"

During his tenure as principal at Chambers Elementary in Cleveland, Ohio, Joe Whelan's risk-taking philosophy turned an average school into a national model whose teachers are often invited to share their ideas with others around the country. Whelan's entrepreneurial energies have attracted local business leaders and national policymakers, including former Secretary of Education William Bennett, to his cause. "To improve Chambers, I needed support from the corporate community, but it wasn't going to walk in the door. So as the CEO of this school, I went to business CEOs to make my case. I joined the civic organizations they attend, went to the lunches and the ball games and got into the network. When we needed something, I could pick up the phone and ask. Because they knew me and my school, they had a context for their investment." Whelan recently joined the faculty of nearby John Carroll University to infuse some of his "maverick educator" ideas into the course work of future teachers in his classes. "We have to encourage the next generation of teachers to stop saying 'this idea won't work because they won't let us' and start saying 'this will work because I'll make it work,'" says Whelan.

MARISSA ROSOFF'S VISION OF COORDINATED STUDENT SERVICES RESULTED IN THE BURBANK OUTREACH CENTER.

Being told it couldn't be done was what made Marissa Rosoff decide to push ahead with her vision: the Burbank OutReach Center. Rosoff, child welfare and attendance specialist for the Burbank Unified School District, wanted to better coordinate the services of agencies dealing with youth and family problems. "The district had terrific

INTELLECTUAL IMPERATIVES

Laser-guided equipment. Satellite-sensing technology. Computer-controlled digesters. Ultrasonic sealing techniques. Mass spectrometers. Tools of International Paper's trade in the 1990s.

...No wonder we place a premium on education.

In fact, International Paper helped pioneer the business-education partnership movement in the 1950s. We also introduced the widely acclaimed "Power of the Printed Word" campaign encouraging nationwide literacy. While the nature of our businesses has changed somewhat over the years, the imperatives haven't. Education is a prerequisite for competitive operation.

In the last two years alone, the International Paper Company Foundation has provided millions of dollars to support education in elementary and secondary schools in the communities where we operate. For 1991, the Foundation has increased its education programs budget by nearly 16 percent.

In August of this year, we launched a program for students in grades seven through nine in 10,000 schools across the country. "Conserving America's Forests" will enhance students' understanding of how properly managed timberlands can satisfy the nation's environmental and commercial needs.

Additionally, facility support is strongly encouraged for local adopt-a-school programs in which employees volunteer as tutors and assist with program and curriculum development as well as fund raising.

For our employees, education doesn't stop at the schoolhouse door. Guided by our Quality Improvement Process, we are making available to our employees learning opportunities ranging from time management principles to highly technical operator training and statistical process control courses.

Further, we are constantly expanding our internal capabilities, which already provide 85 percent of employee training.

Cecil Rhodes, founder of the Rhodes Scholarships, once noted that educational relations make the strongest ties. We agree. In our plants and adjoining communities, educational activities are forging new relations and vistas that will benefit not only our employees and our customers but society at large.

INTERNATIONAL PAPER

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C&C
Computers and Communications

10:15AM

An Arizona college uses NEC's big business technology to reach its smallest class.

There aren't many colleges willing to go the extra mile — let alone more — to help two students fulfill their graduation requirements. But thanks to NEC's sophisticated telecommunications equipment, Maricopa County Community Colleges have put music majors Correne Lane and Casey Henry in a class by themselves.

To graduate, both students must complete a course in Music Theory held on a campus too far away for either to reach. But with NEC's teleconferencing technology, Correne and Casey can now attend class three times a week. The system's two-way communication capabilities allow them to see and hear their professor while he watches and listens to their performances.

In addition to helping the college bridge the gap between teachers and students Maricopa is also using other NEC interactive equipment to keep administrators and educators on the same wavelength.

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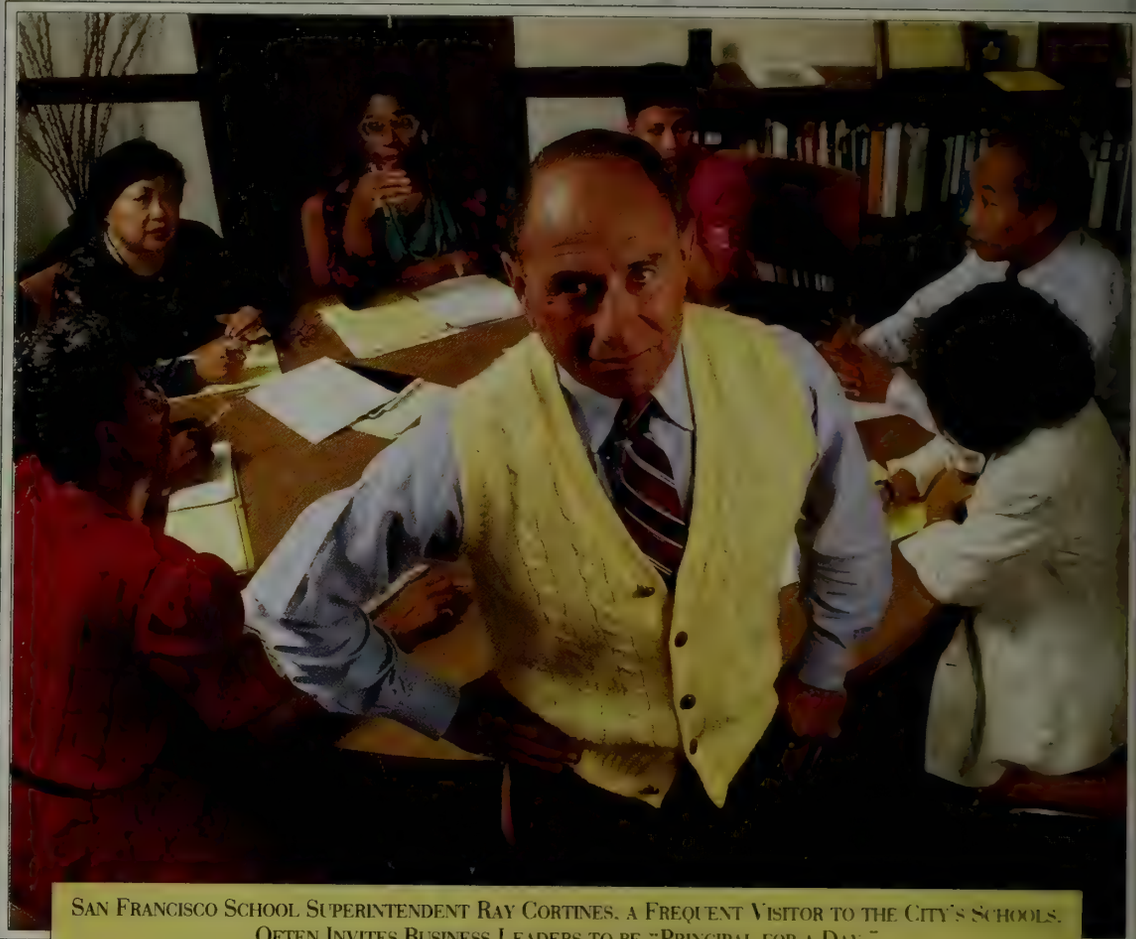
CEOs Speak Out

Everyone – business included – has responsibility for helping our children gain a quality education. We must help remove obstacles to educational excellence at all levels – empowering school districts, principals and teachers so they in turn can empower their students with the ability and desire to learn.

We must elevate the status of teaching in our society; encourage parental involvement; look for ways to make classes as interesting as possible; and give authority and accountability to individual schools and cut them free to perform within certain broad guidelines.

Business must join educators, parents, and government officials in helping our schools meet this challenge of change.

DONALD R. BEALL
Chairman and CEO
Rockwell International



San Francisco School Superintendent Ray Cortines, a frequent visitor to the City's Schools, often invites business leaders to be "Principal for a Day."

relationships with the police department (which provided School Resource Officers) and other L.A. County agencies. But when there was a crisis, we'd spend half the day trying to track each other down."

Undeterred by tales of turf wars in bureaucracies, Rosoff pushed ahead with a plan to establish a center independent of the school district offices. It would house two school district child welfare and attendance specialists, a juvenile detective from the Burbank Police Force, and an L.A. County probation officer. "I took the plan first to the superintendent, then the Police Chief. They signed off on the concept. A school board member helped take it to the City Council."

The OutReach Center opened in April just under three years after Rosoff proposed it. "Think of it as an emergency room for families in crisis," says Rosoff. "When teachers identify a problem with a child, it doesn't take days to tackle it. The left hand now knows what the right hand is doing. Kids don't fall into the cracks." Rosoff says that the budget is "probably puny by corporate standards. Our annual operating budget, excluding salaries, is $10,000. And we get excited when somebody gives us a free batch of pencils or a roll of fax paper. I've been a teacher and a counselor in California schools for 20 years. I can't remember a time when resources were so scarce. Lots of school reformers say, 'Throwing money at the problem won't solve the education crisis.' I agree. But we haven't seen any money being 'thrown.' I invite those people to the OutReach Center to do a cost/benefit analysis. Partway into the morning's third child abuse case, I'll bet they'd better understand some of the roots of our education crisis and why it takes more than talk to solve it."

CEOs Become Principals for A Day in San Francisco

A few hundred miles to the north, Ray Cortines, superintendent of the financially strapped San Francisco Unified School District, has a terrific relationship with San Francisco business leaders, in part because he invites them to "spend a day in our shoes." His successful *Principal-for-a-Day* program brings in high-level business volunteers to run a school for the day. "It's an eye-opener," says Cortines, and "more effective at communicating the problems and opportunities facing the district than any speech I give."

ConSern: An Entrepreneurial Solution To Financing Higher Education

In the minds of most Americans, higher education will always hold a very special place. Ensuring that our children have access to the best in educational opportunities is an integral part of the American Dream.

The American business community also has a vested interest in education. To business and to society as a whole, it is vital to continued prosperity and security to develop individuals with excellent academic and technical skills.

It has been American business' support of education that has helped make this nation a leader in so many fields. This support will become even more important in the future as U.S. citizens compete in a world becoming more competitive and technologically sophisticated.

Reverend John P. Whalen, former President of Catholic University and Chairman of University Support Services.

Now companies of all sizes can offer their employees help in managing education costs, thanks to a unique private sector program sponsored by the United States Chamber of Commerce, based in Washington, D.C., which has a vital interest in education initiatives. The U.S. Chamber ConSern: Loans for Education program provides low-interest, long repayment term education loans to employees and families of U.S. Chamber member companies. Developed and administered by University Support Services, a nonprofit corporation, the program is designed to provide funds to creditworthy families to meet the large and concentrated nature of college expenses. Thousands of U.S. Chamber of Commerce companies sponsor the program, which has provided nearly $250 million to employees and family members. These corporate sponsors pay a nominal fee (as low as $50) and have no financial liability or administrative burden.

ConSern represents the kind of private initiative based on productive partnerships with U.S. business that lies at the heart of a successful entrepreneurial effort to support education. Reverend John P. Whalen, former President of Catholic University and Chairman of University Support Services, points out "we're in an age where the real capital we need is knowledge, not bricks and mortar. There is an enormous gap between the resources an average family has and the costs of sending children to college. In a recent survey we conducted, 65% of participants said they could not have sent their children to college without ConSern. That's why we're here."

For more information on sponsoring the ConSern: Loans for Education program at your company, please write to:

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205 Van Buren
Suite 200
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Or Call: 1-800-SOS-LOAN

CEOs Speak Out

At Chrysler we recognize the need to help mobilize everyone involved to meet the current challenges of education. If we get more adults dropping into schools, the kids will stop dropping out. That is why we encourage our employees to volunteer in their local schools, to serve as tutors and mentors and to help teachers in the tough work that they do. Chrysler's World of Work program for Chrysler volunteers recently received President Bush's Point of Light award. It was the first corporate program to win the award. I am proud of our employee involvement and will continue to encourage Chrysler's people to do their part. We *can* solve our education problems if everyone gets involved.

LEE A. IACOCCA
Chairman and CEO
Chrysler Corporation

CEOs Speak Out

Through socially progressive advertising and corporate sponsorships, Benetton has long been committed to the power of ideas to better the world. We believe that organizations that combine simple, good ideas and an entrepreneurial spirit – the elements which have enabled Benetton to grow in almost 100 countries – are the key to positive change.

With the same entrepreneurial spirit, *Teach For America* is putting a good idea to work. In our rural communities and inner cities, *Teach For America* brings the light of education to our children in the hope that in the future their morning coffee and ours will come with more enlightened news.

United Colors of Benetton is proud to support *Teach For America* and its founder Wendy Kopp through BENETTON ON TOUR, a multicultural fashion/performance benefit taking place in five cities this fall.

LUCIANO BENETTON
CEO
Benetton Group SpA

Indeed. Anthony Tiano, CEO of Station KQED, wrote to Cortines after his day on the job. "I came away feeling that we want to do more . . . and we should. I left the school with great confusion. How can this school, in the midst of [financial] crisis, still treat the students with such love and respect? The headlines don't cover it."

Cortines, recognized as one of the most successful big city superintendents in the United States, was recently asked by Lamar Alexander, Secretary of Education, to join the Department of Education to help sell the President's *America 2000* education strategy. With a year left on his contract in San Francisco, he declined. "The job would have been exciting and I could have brought the perspective of a practitioner to it. But I have a responsibility here to get through this financial crisis."

Cortines has been both popular and controversial in each district where he's been superintendent. He makes an open-door policy part of his managerial philosophy. "Anybody should be able to see me if they need to." His 12-hour-a-day schedule, which starts at 6:00 every morning, includes appointments with parents, teachers and other district employees who want to talk with him.

It was Cortines' "bring in your ideas" policy that encouraged Doris Dillon, an elementary school teacher in San Jose, to walk into his office when he was superintendent of that district eight years ago. "New teachers were coming into the district, but we didn't have a formal training program to welcome and support them during their first year," says Dillon. "I knew the statistics about how many teachers drop out after the first year. . . I went to Ray and said, 'We've got new teachers coming into the system, bringing new energy. We need a program that encourages them to stay in teaching, that pairs them with our best teachers.' I'd no more finished the sentence than Ray said, 'Great idea, Doris. And you'll do it. Tell me what you need and we'll find the money and the resources.' Eight years later it's still going. His willingness to invest in my ideas gave me confidence to push others forward, even after Ray left. He has made a mark here."

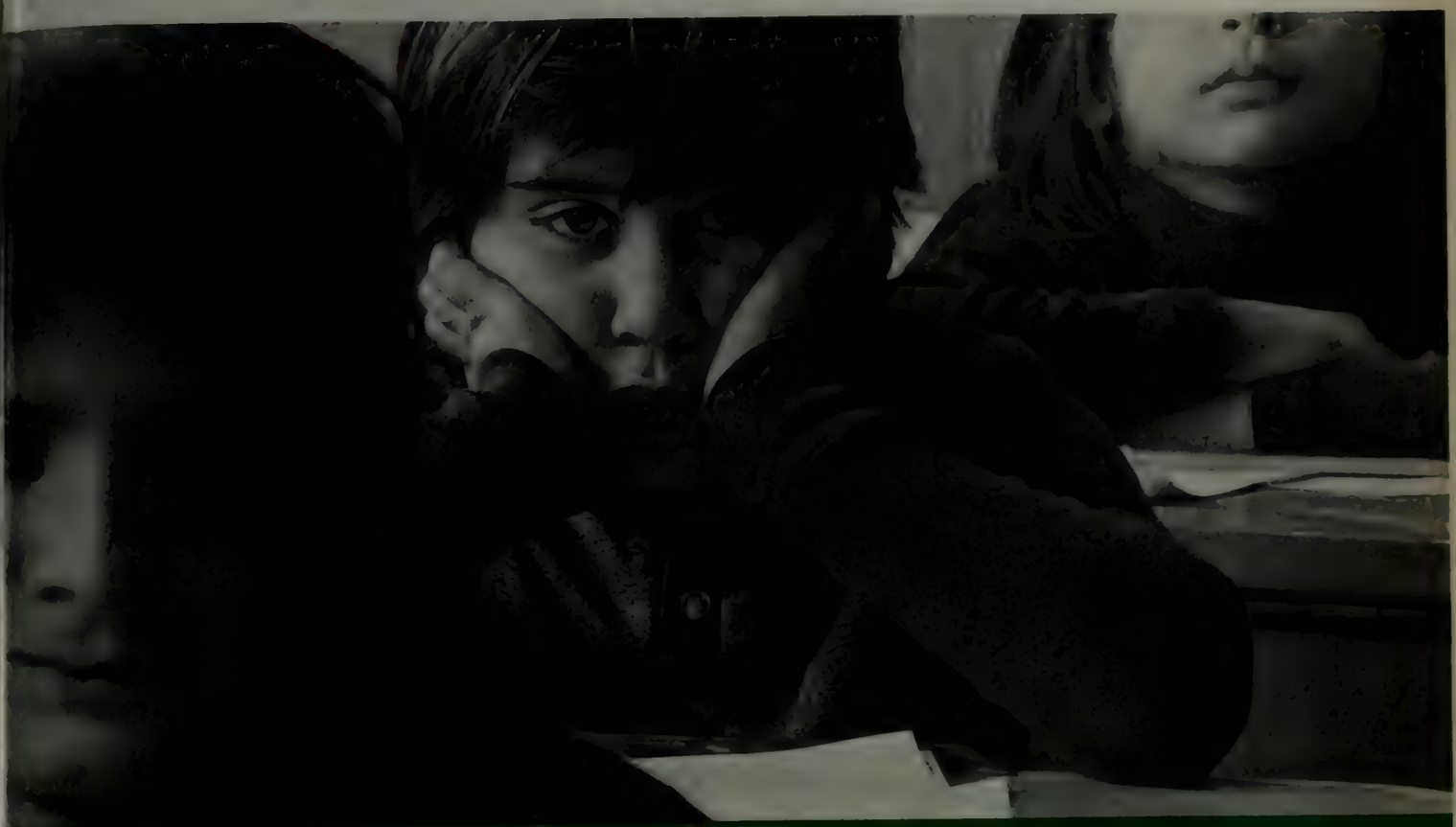
TFA Recruit Jerry Petrus Helps Kids Live the Class Motto "Knowledge is Power" at I.S. 113 in Brooklyn, N.Y.

Teach For America Puts New Teachers in Places Others Won't Go

Twenty-four-year-old Wendy Kopp has never taught, but in less than a year she's made a mark on the nation's schools. Her program, *Teach For America*, recruits highly motivated graduates from the nation's top universities to teach in school districts suffering from persistent teacher shortages. It enters its second year as a $6.8 million organization, which has doubled in size from 500 to 1,000 new corps members.

Teach For America got a quick start a year ago, when Kopp turned her Princeton University thesis about a Peace Corps-style teaching corps into reality. The idea was to recruit bright, creative college grads who hadn't majored in education, train them in problem-solving and teaching basics, and place them for two years in some of America's neediest

IF WE DON'T PAY ATTENTION TO WHAT'S GOING ON IN SCHOOL, WHY SHOULD HE?



What goes on in the classroom is everyone's business, everyone's responsibility. That's why BP supports the Cleveland Summit on Education, a pioneering program that is getting the entire community involved with its schools. Comprised of parents, educators, neighborhood groups, and community leaders, the Education Summit has developed its own ambitious plan for improving the Cleveland Public Schools dramatically by the year 2000. Because if we don't get involved in our children's education, our children won't get an education. For more information, write BP, Public Affairs, 200 Public Square 36Y, Cleveland, Ohio 44114.

The Energy To Change

BP

CEOs Speak Out

Traditional American education systems produce far too few competent graduates to fill the new, more technologically influenced careers of today and tomorrow. Without qualified new entrants into our work force, America will become a country with the industrial capacity to progress, but without the vital human resources to carry it through.

ITT Corporation has recognized this problem and has developed a network of 41 ITT Technical Institutes – community-based, degree-level postsecondary schools located in 20 states. ITT Technical Institutes have emerged as innovators in education delivery methodologies, blending the best of academic and experiential applied learning systems to provide students with the analytical and practical skills most in demand by American employers. Programs of study include electronics engineering technology, computer-aided manufacturing and computer-aided drafting.

RENE R. CHAMPAGNE
President
ITT Educational Services, Inc.

urban and rural schools. Corporate contributions would pay for recruitment and training, and school districts would pay the corps members as provisional teachers.

"Word about *Teach For America* first hit college campuses in January of 1990," notes Kopp, "and we had generated 2,500 applications by April." That same year, the fledgling organization raised $2.5 million and placed 500 new corps members from 172 colleges and universities in schools in inner-city New York, Los Angeles and New Orleans, as well as in Baton Rouge and rural North Carolina and Georgia. Corps members went to neighborhoods that can crush the desire to learn. Most of these neighborhoods have schools with broken-down facilities, few supplies, disheartened staff and low expectations. Corps members went to these schools – and go again this fall – because they believe they can make a difference.

JORGE BRITO LEFT A JOB AS ECONOMIST, BUREAU OF LABOR STATISTICS, TO JOIN TFA AS A FIFTH GRADE TEACHER AT MOTT HALL PUBLIC SCHOOL, NEW YORK CITY.

"Corps members went to good universities. Most came from educated homes. They're articulate, they're well-read," says Thomas Popkewitz, a professor of education at the University of Wisconsin in Madison, who is researching *Teach For America's* progress. "There's a tremendous disparity between the world they grew up in and the world they're confronting. They walk into classroom situations that can be so out-of-hand that the first issue is getting control. But that focus on control can become deadening, because education is about ideas.

"Corps members have to look as if they're traditional teachers to be accepted, but they also need to be innovative, because the situations they're placed in are not functioning," says Popkewitz. "So they walk a very fine line. To what extent can they be innovative when they've got to make sure the kids are sitting in their seats?"

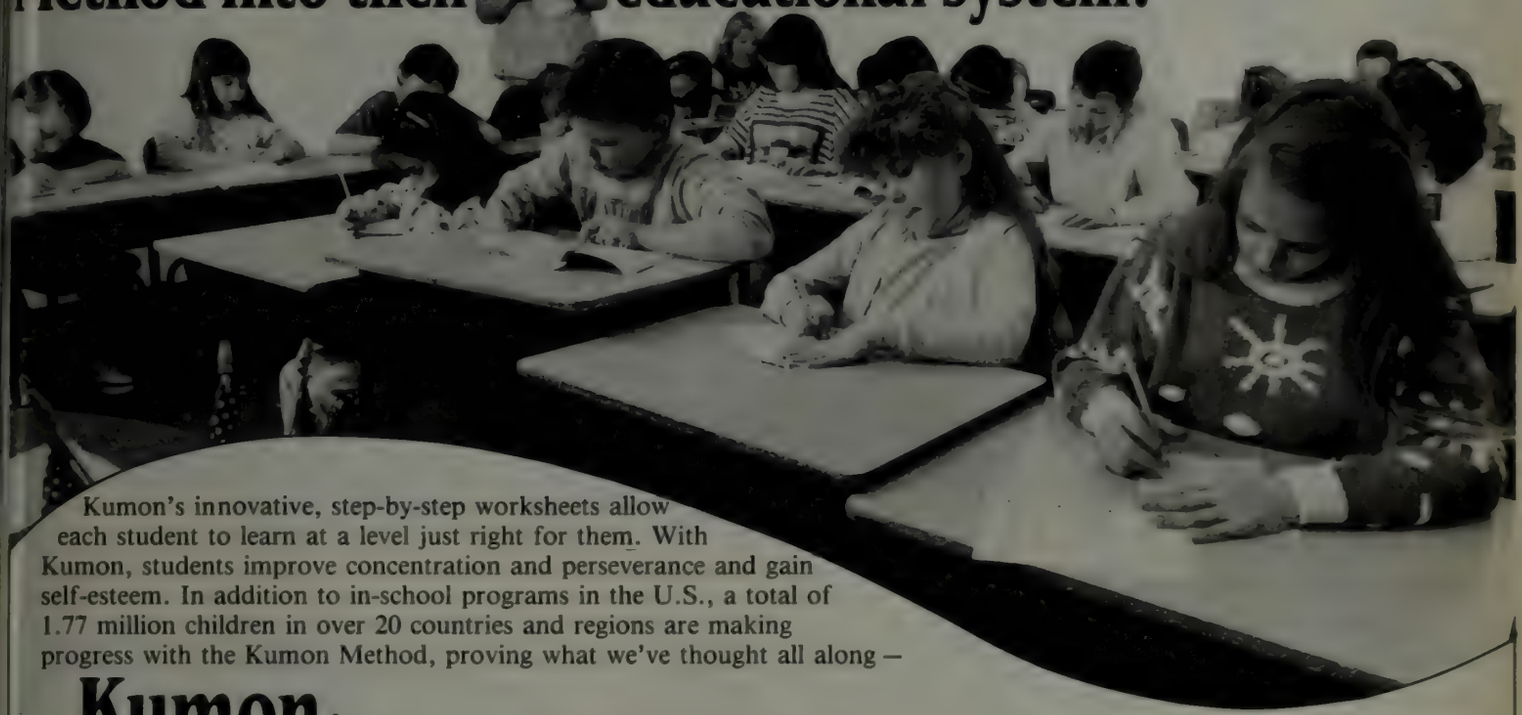
What does happen when creative energy and high hopes come face-to-face with the reality of these schools? Less than some corps members had hoped, but more than many education-watchers had ever imagined.

"Every Story I'd Heard Was True"

"It was a huge blow to find that students didn't respond to some lessons," admits corps member Erin Holifield, who teaches high school speech and drama in New Orleans. "I've had to come to terms with the fact that I have an awful lot to learn. The stories I'd heard about coming home in tears every day were true. We thought we'd be able to rise above the difficulties, but we couldn't always do it."

Yet by June, 450 of the original 500 corps members still remained, a higher percentage than that achieved in the regular ranks of first-year teachers. And dozens of corps members have clear evidence of their success – success remarkable by almost any standard. Erin Holifield's classes, for example, won 32 of 42 prizes – including all the top prizes – in the New Orleans Parish Speech Tournament. Holifield figures she made up in determination what she lacked in experience. "We volunteers left that first *Teach For America* summer institute overflowing with enthusiasm and energy," recalls Holifield. "I don't know if we were naive or really committed, but I threw myself head-

Why have a total of 302 schools around the U.S. introduced the Kumon Method into their educational system?



Kumon's innovative, step-by-step worksheets allow each student to learn at a level just right for them. With Kumon, students improve concentration and perseverance and gain self-esteem. In addition to in-school programs in the U.S., a total of 1.77 million children in over 20 countries and regions are making progress with the Kumon Method, proving what we've thought all along –

Kumon: Believing in the potential of every child

Individual Program

The Kumon Method is designed so each student has an individual program. Because each person absorbs knowledge at their own rate, Kumon can cater to all abilities and age groups.

Appropriate Starting Point

When students enroll in the Kumon program they are given a Diagnostic Test. From this starting point determined by the test, they gain immediate success, attaining 100% with each set of worksheets and gaining confidence.

Repetition

Repetition is the basis of Kumon's success, giving students adequate time to consolidate and master each area covered in the program. With repetition, each level is easier if the previous level is thoroughly learned.

Developing Good Study Habits

Students are encouraged to set aside between 10-30 minutes a day for Kumon. Because the program is minutely calibrated and contains numerous examples for newly introduced sections, individuals can work independently and discover the joy of self learning. With regular study habits, they achieve success and set higher goals.

Self Learning

Kumon teaches students to think for themselves. Instruction is given at appropriate times, yet the program is specifically tailored to make progress smooth and easy with a self learning method. We believe that to learn by yourself is the best way to learn.

Solid Foundation for Higher Mathematics

Kumon prepares individuals for greater success at progressively higher levels of learning. Students who study high school math in primary school, for example, gain knowledge they can apply later in their education, and then have more time to perfect other subjects.

Believing in the potential of every child

KUMON INSTITUTE OF EDUCATION

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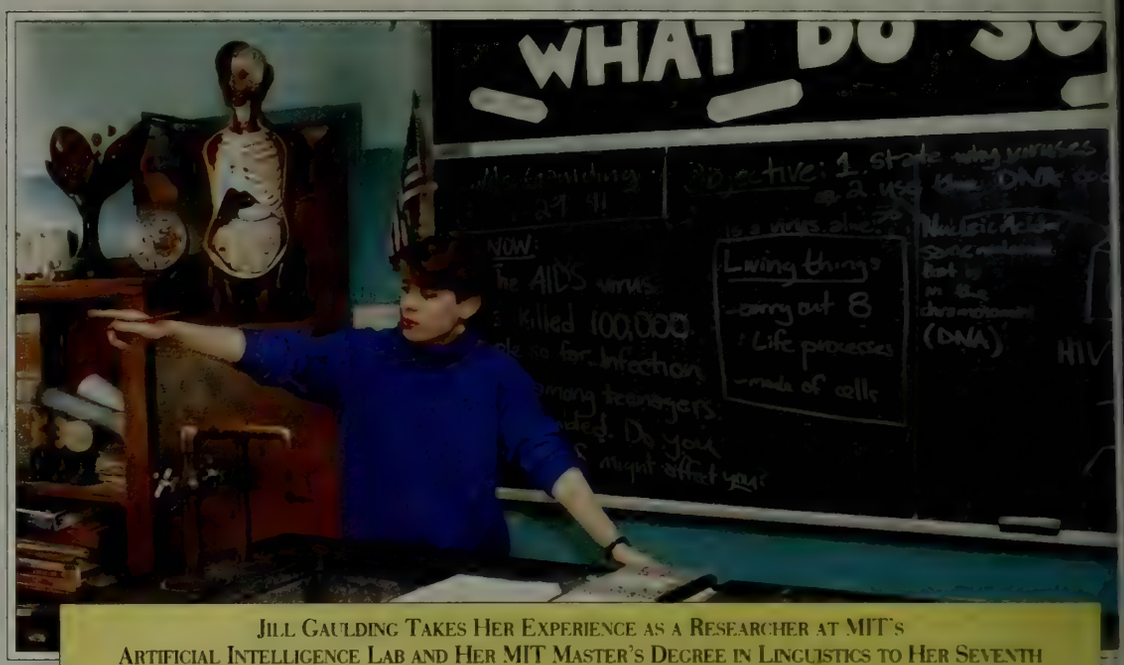
Osaka Head Office 5-6-6 Nishinakajima, Yodogawa-ku, Osaka 532, Japan Tel 06-306-4632 Fax 06-301-0371

CEOs Speak Out

What I find most heartening about the recent initiatives in education reform is the recognition that it is time to move beyond incremental approaches to embrace fundamental change in the way we educate our children. The Bell Atlantic Charitable Foundation is helping break this new ground, by forming the lasting partnerships necessary to foster the skills that will be the foundation of the information economy.

But the most significant changes in our educational system will derive from technology itself; in the future, the infrastructure for learning will be built, not of bricks and mortar, but of fiber and photons. If the key to education reform is expanding "choice," information technologies will be able to expand a parent's or a student's *real* choices in a way that no physical reshuffling of resources could accomplish – making access to knowledge as universal as the impulse to learn.

RAYMOND W. SMITH
Chairman and CEO
Bell Atlantic Corporation



JILL GAULDING TAKES HER EXPERIENCE AS A RESEARCHER AT MIT'S ARTIFICIAL INTELLIGENCE LAB AND HER MIT MASTER'S DEGREE IN LINGUISTICS TO HER SEVENTH GRADE SCIENCE CLASSES AT I.S. 117, BROOKLYN, NEW YORK.

long into it. I think I felt compelled, because of the nature of *Teach For America*, to be enthusiastic and energetic, and I think that made a real difference."

Another corps member, Sarah Van Orman, who teaches biology in rural Georgia, was nominated by the school's students as teacher of the year. Jorge Brito, who teaches bilingual science and math in Spanish Harlem, organized a science fair. Baton Rouge teacher Lori Donoho, the only math teacher at her high school, coached volleyball, started a dance club, co-directed a fitness club and the school choir and served on the policy-making school advisory council. The list goes on and on, testimony to corps members' intelligence and drive.

Those 450 first-year corps members are now beginning their second year. Meanwhile, a new batch of 783 first-year recruits are entering classrooms in New York City, Newark, Los Angeles, New Orleans, Baton Rouge, Miami, Oakland and Houston, and in rural areas in Arkansas, Texas, Louisiana, Georgia and North Carolina. In every case, the districts have persistent teacher shortages and cope by using alternative certification for people without teaching credentials.

According to Kopp, both first-year and second-year corps members are better prepared this fall, thanks to changes in the summer training program. "We've fine-tuned how we select teachers and how we train them," Kopp explains. "We brought in a council of deans, we put the training institute in their hands, and they constructed a new curriculum and a more rigorous assessment."

Teach For America Profile
Nonprofit Organization
Founded 1990

Concept
A national teacher corps of recent college graduates who commit two years to teach in urban and rural areas experiencing persistent teacher shortages.

Revenues
Currently funded by charitable contributions of foundations, corporations and individuals.

1990..... $2.5 million
1991..... 5.0 million (projected)
1992..... 6.8 million (projected)

Challenges
- To make a difference in troubled schools.
- To influence teacher status, training and support nationwide.

Founder
Wendy Kopp, age 24.

Grew up in Dallas, Texas. While at Princeton's Woodrow Wilson School of Public and International Affairs, served as president of a student-run nonprofit organization and as publisher of student-run *Business Today*, which circulates to 200,000 students at 99 colleges and universities.

Quote
"The idea just popped into my head. I knew the money was out there . . . I finally decided to just try it."

IS AMERICA'S WORK FORCE BANKRUPT?

Many business leaders believe the answer to that question is a frightening "Yes." They perceive an absence of commitment, a lack of maturity, and the inability to absorb training to be an alarming trend in much of today's youth.

But perception isn't necessarily reality. Consider the people who have served in the Army.

The Army enlists quality people.

The Army believes America's youth belong in school. Our recruiters are strong advocates for good study habits and high school completion. We believe it pays off.

Over 98 percent of new recruits are high school graduates. Over two thirds score above average on the Armed Forces Qualification Test, a standardized aptitude test.

These smart new soldiers then become students in the nation's largest technical training organization. With 18 major technical training complexes, the Army trains young adults in over 300 specialities, many that involve high-tech equipment and state-of-the-art technology. It is a system that graduates over 100,000 men and women each year.

Transferrable skills.

Researchers at Ohio State University found that 50 percent of the people recently separated from the Army had transferred the occupational skills acquired in the military to their civilian employment. This was slightly better than the rate of skill transfer by graduates of business schools and vocational/technical colleges. But beyond occupational skills, soldiers acquire other lifelong qualities.

As a matter of fact, a survey of hundreds of employers, many from Fortune 500 companies, clearly shows that they value the attributes soldiers develop in the Army and will hire young people who are reliable, disciplined and have responsible attitudes toward work.

How the Army Career and Alumni Program helps America.

This year about 150,000 men and women will leave the Army. As they return to civilian life, they bring with them self-discipline, motivation, and technical skills America's work force needs. To help them get a head start on their civilian careers, the Army established the Army Career and Alumni Program (ACAP).

At ACAP Centers around the world, the Army provides training in job search skills for soldiers and their families. Besides facilitating their entry into the civilian world, the ACAP program prepares soldiers to make immediate contributions in their new civilian jobs.

How ACAP can help your business.

While ACAP serves the needs of the soldier, it's also a resource for employers across America. Interested employers may enter their firms into the Army Employer Network Data Base and find out more about ACAP by calling 1-800-445-2049.

It makes sense to support Army recruiting and Army Alumni. The Army will continue to recruit and train high-quality young men and women because they are the key to maintaining America's defense. And the Army will continue to return to the civilian sector capable, mature, highly-motivated young people, ready to Be All They Can Be as part of America's work force.

DEPARTMENT OF THE ARMY · UNITED STATES OF AMERICA · 1775

CEOs Speak Out

Government money and the control that accompanies this money is ruining higher education in America. Evidence abounds to reveal that federal money and therefore federal control is ultimately responsible for: quotas, corruption, "politically correct" thinking, lower academic standards, the politicization of campus, loss of efficiency and productivity, neglect of traditional values, price-fixing, soaring costs, incoherent curricula and the abolition of free inquiry and open discussion.

At Hillsdale College the entrepreneurial solution to this malaise is to raise all of our own funds from the private sector. The College does not accept one penny of federal money. We are free of government control, able to determine our own affairs and to defend the freedom and traditional values of our faculty and students and of our growing constituents throughout the country.

DR. GEORGE ROCHE
President
Hillsdale College

Popkewitz, charged with evaluating *Teach For America's* progress, wonders whether these changes indicate the beginning of a shift away from entrepreneurial innovation toward education-as-usual in the struggling schools. The trainers, who include faculty members from the schools where corps members work, "are socialized to existing schools and existing approaches," he points out. "Maybe some of the commonplace elements of schools shouldn't be taken for granted, but should be questioned."

Corps members themselves quickly recognize the institutional limitations to their creative approaches. High school science teacher Lori Hidek, for example, reflects, "I've tried to help kids connect science to life and work and other classes, to develop a greater sense of the outside world. I did better with that in the first part of the year. At the end I was pushing to get through state objectives."

"People say, 'How are you going to change education?' They're looking for instant solutions. That's an unfair expectation," says Popkewitz. Nevertheless, that's exactly the expectation *Teach For America* has for itself – big dreams, plus the drive to go after them. Goals include pursuit of federal funding options "which include fewer strings than other types of federal support," according to the organization's five-year plan. *Teach For America* will also seek state funding and donations from corporations at local school sites.

When asked if, looking back, there was anything she would have done differently, Kopp says: "Tons of people have questioned our decision to start out big. I may have met one other person who thought we should actually recruit 500 people in the first year. It does sound crazy, looking back on it, but I am still totally convinced that it was what we needed to do. That was the best strategic decision we've made. We encountered problems, yes, but if we had recruited 100 people, we would have encountered the same problems."

Exploring Spin-offs to Fund Expansion

But what lights up Kopp's eyes is the prospect of generating profit – as do YMCA health clubs – to expand the organization's activities. "Profit-generation has enormous potential," says Kopp. "We're exploring profit-generating ideas. Corporations spend millions of dollars on remedial training. Our greatest assets are our corps members, who would love to make additional money during the summer. We could set up some kind of program that would be profit-generating for us, too. We could provide a training institute for non-corps members who want to get into the teaching profession. We could capitalize on *Teach For America's* name to market certain products to the education community. There's a host of ideas," she says.

"The success of *Teach For America* is tied to the success of reforms in decreasing the bureaucracy in schools," Popkewitz insists, "and to its own ability to live with ambiguity. But as it grows, can you get a larger organization to act that way?"

No problem, according to Kopp. In addition to an open-minded organization philosophy, each year's new batch of young recruits assures innovation and motivation. "I believe in change," says Kopp. "There's always a better way to do something. We are unbelievably responsive to what we see out there that needs to be changed."

CEOs Speak Out

I believe that any child who is presented with materials that precisely match his or her level of ability will enjoy learning and come to know the joy of developing his or her own limitless capabilities.

I am convinced that this learning method can be adapted to the requirements of children in any country and will help them develop their abilities.

There are no national boundaries when it comes to a child's education.

CHAIRMAN
TORU KUMON
Kumon Institute of Education

Educator Toru Kumon

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CEOs Speak Out

With America's work force falling behind in productivity and service, public broadcasting stands ready to use its extensive experience in educational telecommunications to help produce a work force capable of competing in the global marketplace. The Corporation for Public Broadcasting brings together business, education and public telecommunications to help America achieve its goals for improving education by the year 2000. Together with business and education, we can help the nation get a better return on its investment and assure a competitive, better educated work force.

DONALD E. LEDWIG
President and CEO
Corporation for Public Broadcasting

TEACH FOR AMERICA

***Teach For America* is a national teacher corps that recruits and trains highly motivated graduates from the nation's top universities to teach in school districts suffering from the most persistent shortages.**

A conversation with *Teach For America* founder Wendy Kopp

Where did you get the idea for *Teach For America*?

I was at Princeton the fall of my senior year, 1988, absolutely uninspired by my senior thesis and the job hunt. I saw my friends equally uninspired by career options. Yet they were heading off in droves to investment banks and management consulting firms – and not because of a deep commitment to high finance. It wasn't even because of the high salaries. It was just because they were aggressively recruited to do that, and that was the high-prestige thing to do.

WENDY KOPP

I had been working with another nonprofit organization, and we had brought in student leaders and business people from all over the country to talk about the problems in education. At that conference, the idea just popped into my head: Let's create a national teaching corps.

The idea for *Teach For America* was to surround teaching with many of the same factors surrounding investment banking and management consulting: Create an aura of service and status and selectivity. Recruit college students aggressively. Make teaching accessible to people who did not major in education. And make it a two-year commitment, on the theory that the experience will shape their interests and that a lot of them will continue in education.

That spring, I became obsessed with this concept, because it seemed so natural. I finally decided to just try it.

How did you manage to gather support? You were just a college kid with an idea.

I knew money is out there, because I had worked for another nonprofit organization, the Foundation for Student Communications, a $1.5 million organization that publishes *Business Today* magazine and organizes conferences. As president of that in my senior year, and as editor and publisher of the magazine prior to that, I had gained a lot of skills that I would need in managing the fundraising to get *Teach For America* off the ground.

I wrote my senior thesis about the concept. After I turned it in, I boiled it down to a 30-page prospectus and sent it to about 30 CEOs at randomly selected large companies, hoping that a couple of the mailings would land right.

That's what happened. One of them landed in the hands of the Education Task Force at Union Carbide. They took me to lunch and offered me use of their office space in Manhattan. Then the day after graduation, Mobil approved a $26,000 seed grant that enabled me to spend the summer traveling, meeting people in districts, foundations and corporations. In September, I started bringing in other recent graduates to really develop the plan and put it in motion.

We identified a student leader on each of

the 100 campuses we targeted. We would call up student organizations and say, "We're creating this national teacher corps. We want you to help us do it." We brought those students to a conference to motivate and organize them to go back and spread the word about *Teach For America*. It first hit college campuses in January 1990, and by April 1990, we had 2,500 applications. Of those, we chose 500, whom we sent to the summer training institute we put together, and, in the fall, to several schools at six sites.

How did you identify those sites?

Traditionally, inner-city urban areas and remote rural areas have persistent teacher shortages. We looked at data from the U.S. Department of Education to identify possible sites. We went to a number of those locations and looked at the extent of their need and the degree to which they would support *Teach For America*. We tried to meet all the players – the unions, the superintendents, the school boards, some of the principals – to gauge whether there was really a need and whether the site would be a supportive environment for corps members. Interested districts applied to *Teach For America*. Because of our limitations as a first-year organization, we had to turn some away. We're expanding to a total of 11 states this year. But there are still more potential sites. We had to turn some away this year too.

How would you describe your successes, in terms of impact on education?

Short term, we're mitigating persistent teacher shortages, and we're providing students with a whole new source of enthusiastic teachers. We've found that amazing things happen when you put these people in classrooms. They approach their work creatively. They bring in outside resources. It's phenomenal.

We're also doing a lot more than placing good people in classrooms. Long term, we are working to fundamentally, systematically address the premise that the future of the educational system depends on the creativity and intellect and drive of the people who staff the schools – just as CEOs will say that the quality of their companies depends on the quality of their people.

We're not going to have a first-class education system as long as the public views teaching as downwardly mobile. We want to try to change that, to show the public that outstanding individuals compete to enter this profession and that they find it incredibly challenging and rewarding. We want to make teaching a viable career option on campus.

What's to keep you from becoming just another source of teachers who do whatever their colleagues do?

These jobs are unbelievably challenging. It is extremely easy to go in and, because you have to keep your head above water, resort to exactly what everyone else in that school has been doing for 20 years. That's not necessarily the right way to go. But it's difficult to get that teacher to realize that he or she should be creative and innovative. Sometimes that's not a real option.

But our recruitment criteria require those we select to demonstrate a high level of commitment – through excellence in academics, extracurricular activities – and flexibility, leadership, professionalism, an effective and engaging communication style and an educational approach that consists of high expectations for all students and sensitivity to diversity. The strength of *Teach For America* is that it is a corps, and corps members support one another. It's a network that most teachers don't have, unfortunately.

We need to give these corps members a real base of practical teaching techniques that they can fall back on and that will enable them to go in and be successful in the classroom in their first year. As they gain experience and become more confident in their ability to do innovative things, we need to have a strong program of professional development that puts them in touch with innovative concepts and gets them to challenge themselves and question what they're doing in the classrooms.

You cannot make an expert teacher in a pre-service training institute. There's no way. There isn't a program in the country that does it. Teachers are made through experience and ongoing professional development. Our efforts this year will be much stronger in supporting the corps and providing members with ongoing assistance throughout their two years.

As you take stock of your first successful year and look forward to growth, what management issues are on your mind?

Because we took on a huge task, things have evolved quickly, and are constantly moving. A prospectus I turn out one month will be outdated a month later. Major decisions have to be made quickly – sometimes within 24 hours. I hope, for everyone's sake, that things will become a little more institutionalized.

One thing that helps us to not become stagnant is our team structure. The idea that drives our whole management system is our desire to involve as many viewpoints as we can in making every decision and in forming every strategy.

We don't feel that we have the answers at all. The challenge is to remember that there's always a better way. That's the responsibility of the leaders of an organization.

CEOs Speak Out

Nurturing is important for young trees and we believe it's essential for students.

That's why the International Paper Company Foundation is focused on education. For example, this year we're supporting programs that underwrite fourth- and fifth-graders' studies of the United States/Japanese economies, technology and geography in Mobile, Alabama; reading skills tutoring in Ukiah, California; and an economic literacy program in Cincinnati, Ohio, for grades 3-12.

This partial list of activities illustrates both the breadth of opportunities for private sector initiatives as well as the critical needs confronting the nation. Our commitment for more than three decades has been to expand opportunities for students and teachers. We believe these investments are the seeds for tomorrow's betterment.

ARTHUR WALLACE
President
International Paper Company Foundation

IN OVER 30 YEARS AS A PROFESSIONAL GOLFER, Chi Chi Rodriguez has won many titles.

But in Clearwater, Florida there are 500 kids who have given the champion golfer a title which he cherishes more than any other.

To them he is simply "Uncle Chi Chi."

"These kids and I have a lot in common," says the leading Senior Golf Tour winner, "We've all spent a lot of time in the rough."

For the last 12 years, keeping kids out of the rough has been the mission of a dedicated group of people who together make up the Chi Chi Rodriguez Youth Foundation.

A foundation which has grown to become a model for child welfare organizations across the country.

Bill Hayes, President and Co-founder, explains. "Most of our kids have had it pretty tough. They've had troubles at home or at school. Or they may have just started mixing with the wrong crowds."

"What we aim to do is get these kids before they get into real trouble. To show them real alternatives to crime, drugs and life on the streets.

"Having Chi Chi as an uncle provides

"TO HELP these KIDS fight BACK, we arm THEM WITH clubs."

CHI CHI RODRIGUEZ,
Pro Golfer

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them with a perfect role model. He's living proof that no matter how hard your background has been, you can always rise above it; that in life, unlike golf, no obstacle is immovable."

Since 1986 Toyota has been one of the major supporters of the Chi Chi Rodriguez Youth Foundation. Providing money to keep the program on its feet, and vehicles to keep the volunteers off theirs.

The Foundation is just one of the hundreds of contributions Toyota is proud to make every year. And one that already seems to be paying off.

"Chi Chi kids are graduating from college," states Bill. "They're getting jobs. We've even a couple of budding golf pros in our midst."

We asked the proud "Uncle" if there was any secret formula for the foundation's remarkable success story.

Chi Chi thinks for a minute, then leans forward to tell a story.

"When I was a young boy in Puerto Rico, we had a little field which was overgrown with thick bamboo trees. My father wanted to plant corn, but clearing the bamboo would have taken weeks. Time he couldn't afford to take off his job.

"So every night when he came home from work he would cut down only one single piece of bamboo at a time.

"The very next spring, there was corn on the Rodriguez table."

Chi Chi looks up just in time to see a ten-year-old girl sink a perfect putt.

"That's the only secret of our success. If you really want something and you're prepared to work hard for it, then little by little, one by one, miracles will happen."

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For more information on the Chi Chi Rodriguez Youth Foundation contact: Development Office Chi Chi Rodriguez Youth Foundation, Inc., 3030 McMullen-Booth Road, Clearwater, FL 34621

Teach For America Corps Members Report From the Trenches

CEOs Speak Out

Like businesses, schools must be accountable to their owners for their performance. The community owns its schools; they should set standards such as graduation rates and other yardsticks of achievement and hold school administration accountable for performance against those standards.

In Cleveland, our base in America, we are working with school administrators and faculty, other businesses and other interested citizens as part of the Cleveland Education Summit to invent ways to improve performance. We work specifically to increase parental involvement, extend school programs and create incentives.

Collectively, as owners, we invest in and support our schools. In return, we expect accountability for performance.

JAMES H. ROSS
Chairman and CEO
BP America

SARAH VAN ORMAN

Teaches High School Biology in Sparta, Georgia

"The kids are there – they're curious, they're motivated, but too often they're getting a substandard education. There's a lot of teacher turnover here. When you have 20 to 25 new teachers of a total of 55 – including a lot of first-year teachers – the kids tend to run a little wilder. There's not that cohesiveness and continuity between classes. And when a kid has three or four first-year teachers in a year, that kid can miss a lot.

"There's no air-conditioning in this building, and it gets hot in June," notes Van Orman. "Sometimes there's no toilet paper. There's no copy machine. The roof leaks in half the classrooms. I can't use the sinks in the biology lab, and I have six microscopes for classes of 32. I didn't get lab supplies till January. There just has to be more long-term commitment by society."

Van Orman, who plans to go to medical school after completing her second TFA year, says: "We need to recognize that it's a good thing for intelligent, talented people to be teachers. And there are a lot of really talented teachers out there working for $25,000 a year in situations where they have to fight for their paychecks. Teachers just get tired. A kid comes to you with a problem, but you don't have the resources to solve it, so you lose sleep over it. After a few years, you've got to get some sleep, so you just turn off."

TFA CORPS MEMBERS CONVENE FOR SUMMER TRAINING IN LOS ANGELES.

Catherine Hottenstt

LORI HIDEK

Teaches High School Science in Henderson, North Carolina

"I was planning to go to law school, to major in patent law, but I then heard about *Teach For America*," recalls Lori Hidek, a corps member who majored in chemistry at Simmons College. Hidek has spent the last year teaching science in a small high school in rural Henderson, North Carolina.

"The statistics for Vance County, where I teach, are horrible. We weren't accredited by the state, and if we don't shape up, the state may take over. Only about 4% of our seniors go to college," she notes.

"There's not much looking into the future by students and families. Families have lived here for generations, and there's not much incentive to change. I'm not sure there is one solution. But it does require getting to know your students and developing their basic curiosity about the rest of the world.

"The initial challenges were things like walking in and trying to assert control. I was only 21, and I looked 21, and I had some students who were 20. I'd had a lot of lofty ideas about students who couldn't wait to learn, so it took some adjusting," admits Hidek.

"Now I'm at school till 7 or 8 at night. There are labs to set up and demonstrations to plan, and because I'm a first-year teacher, I haven't learned all the tricks. But I'll teach a second

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CEOs Speak Out

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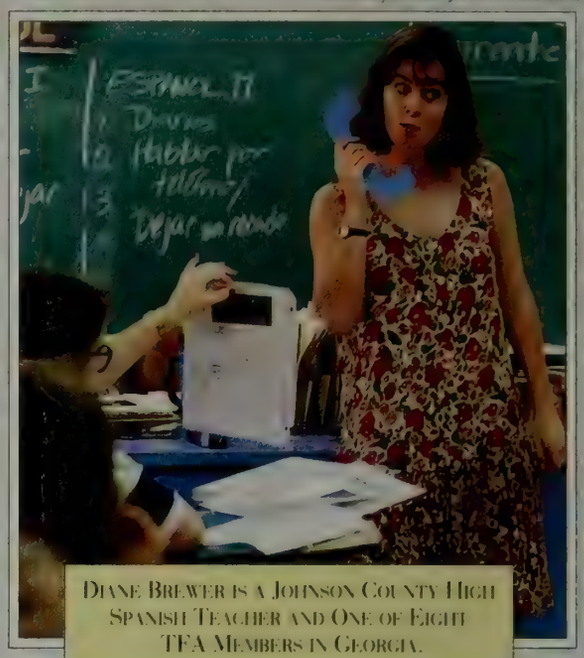
HONORABLE
G. KIM WINCUP
Assistant Secretary of the Army (Manpower and Reserve Affairs)

year. I've worked so hard that I deserve this next year to go more smoothly. I want to see how much I've learned and what the kids have learned," says Hidek. "I'm a sucker for seeing kids understand and do well.

"I've got some advice for people interested in improving education. Students and teachers and administrators and policymakers all want education to turn out well. Keep that in mind instead of name-calling and finger pointing."

Nick Arroyo/Atlanta Journal-Constitution



Diane Brewer is a Johnson County High Spanish Teacher and One of Eight TFA Members in Georgia.

DENISE JANSSEN

Teaches Third Grade in Bedford Stuyvesant, New York

After working as an intern at the *Wall Street Journal*, Penn State English major Denise Janssen planned to be a journalist. Now she's teaching third-graders in New York's notorious Bedford Stuyvesant neighborhood. It all started when she saw an ad in her college paper urging readers to "Make a difference in America's future."

"I wanted to work with kids in an inner city. There's a kind of desperation in the big cities, and the size of the challenge attracted me," explains Janssen.

"Most people don't want to come to Bed-Stuy; they think it's a hellhole. You can feel like you're stepping into a wasteland. But if you can make it here, you can probably make it anywhere.

"People tend to focus on the drugs, guns, poverty. Some think these kids must be animals. Absolutely not. These kids have a real desire to learn. What they need is believers and risk-takers who see them as just as ready for challenge as anyone else," says Janssen.

"The toughest part is realizing that what we accomplish in eight hours can easily be defeated in the remaining 16. I can't control the environment outside school – and a lot can take place out there. We have a lot of 'throw-away' children. I had a child who hadn't eaten in three days, kids who were sexually abused, kids who witnessed a robbery at the local store. One time I was teaching a math lesson at 10 a.m. and heard boom-boom-boom. The children said, 'Get away from the windows, it's stray bullets.' I was shaken, but the kids said, 'Don't worry.' All my third-graders have extremely developed coping skills, because if they don't develop those skills fast, they die.

"There were days when I asked, 'What am I doing here? Have I done the kids any good? Am I doing myself any good?' I've cried. I've cursed. But my colleagues praised me for not backing down from the challenge.

"Now, I love being a teacher. I think I'm lucky to be in a profession where you can take chances on people and something wonderful can happen. A kid can blossom. It's a magical thing to see, and to be transformed by. I'll be back next year, if the New York City budget cuts don't get my position."

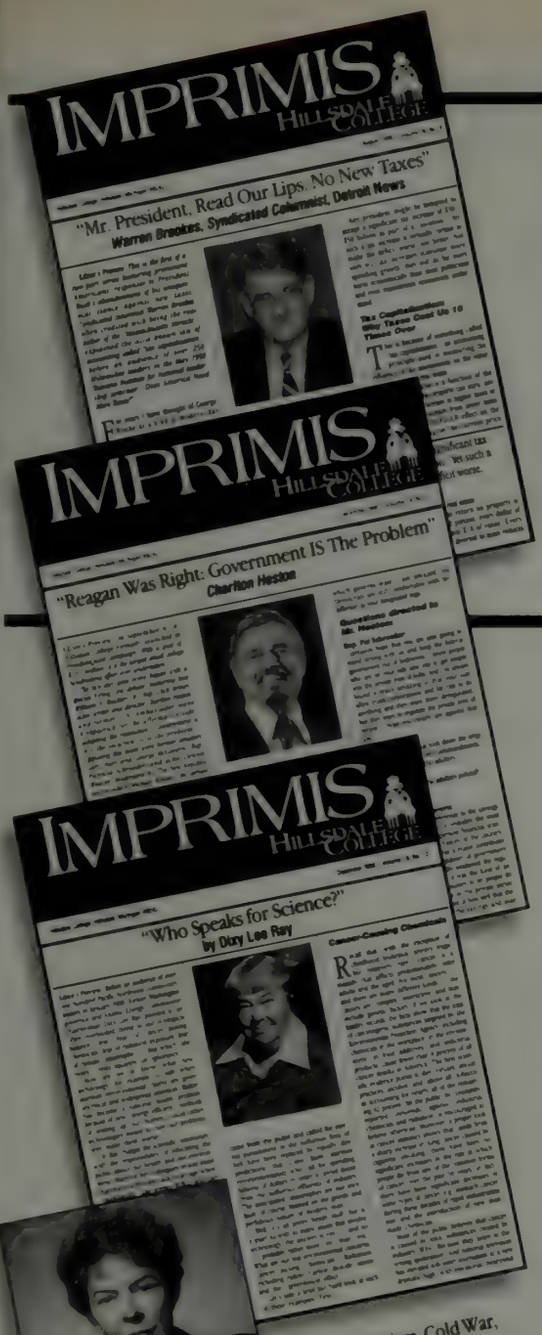
DIANE BREWER

Teaches High School Spanish in Johnson County, Georgia

"I was clueless. I had no idea what I was doing," admits Diane Brewer, a corps member teaching high school Spanish in rural Johnson County, Georgia.

"I think now that I had the experience of most first-year teachers: excited about the subject, but without a clue on discipline. I was working 70 hours a week, but it just wasn't happening. While I could go to the curriculum director and principal, there wasn't anyone else teaching Spanish. I didn't know what to do. I felt like I was failing," recalls the Tufts grad.

"But something happened to change my mind. It started when I was giving the kids an oral exam. I was face-to-face with those kids, and I realized how much I really enjoyed teaching. I started talking to them in a way I hadn't before. I realized how



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Dr. George Roche
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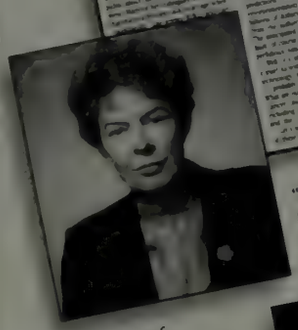
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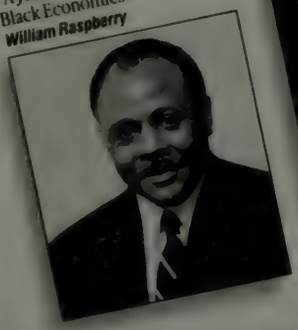

"Popular Culture and the War Against Standards"
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HILLSDALE COLLEGE
Views From A Heartland Campus

CEOs Speak Out

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DR. HISASHI KANEKO
President and CEO
NEC America

culture-shocked I'd been. I realized that these were really bright and wonderful kids – so much of what I had seen had really been superficial.

"I also started taking an evening class at Georgia College on methods for teaching foreign language, and I got some wonderfully creative ideas focusing on communication. Since then, it's been wonderful."

RAY OWENS

Teaches First Grade in Lynwood, California

"My first choice was high school," muses corps member Ray Owens, a graduate of the University of Texas at Austin. Owens now teaches first graders in Lynwood, near Los Angeles. "I love little kids, but the first-grade curriculum was not what I wanted to teach. The principal gave me a speech about being flexible, so here I am. It has turned out to be wonderful! I get to hear kids read for the first time. They say, 'Teacher, I got it!' "

Those moments are especially rewarding because most of Owens' young students are Latino and primarily speak Spanish – so learning to read in English is a striking accomplishment for them.

"I had gone to school with Latino kids. Even so, I was struck with how important it is for my students to learn English. But some of them were ashamed of speaking Spanish. I talked to them about not making fun of those who don't speak English yet. I taught the kids to praise and encourage one another in their reading. They were never afraid to talk, never afraid to express their opinions.

"Kids at that age are so fresh, so ready to learn," says Owens. But conditions at Woodrow Wilson Elementary often made teaching difficult, even with responsive young minds, he says. "A lot of the time I was angry, but I didn't know who to be angry at," he admits.

"This is a struggling district financially. The first month, there were no paychecks. It was awful for those of us who had gone all summer with no income. There's no air conditioning, and this is southern California. The classroom is too small for 34 children. We just bump into each other, back chairs into one another. It's ridiculous. We also didn't get books for the kids – or even teacher editions – till November, and as a first-year teacher, I didn't have my own materials. I spent a great deal of time in libraries, searching for quality literature for them, making copies to give the kids.

"If this country is going to be serious about education, we need to address the issue of limited resources. The student/teacher ratio has to get better," Owens insists.

"I'm looking for a grant right now for a couple of computers in my classroom. Business support for technology is important. I also think there should be better communication between schools and business in the community. What are the expectations of business? What are the needs of schools? We need more dialogue." ■

Teach For America Corps Member Profile

Age
Average is 23.
73% are between 20 and 22;
10% are older.

Gender
56% are female, 44% male.

Ethnicity
74% Caucasian,
17% African-American,
5% Latino,
4% Asian-American

Combined average SAT scores
1251

Colleges most attended by corps members

Yale	(28)
University of Michigan	(14)
Princeton	(13)
Tufts	(13)
University of Wisconsin	(13)
Brown	(11)
Cornell	(11)
Harvard	(11)
Stanford	(11)
Vanderbilt	(11)

First-year teacher salaries
$15,000 to $29,000

For more information about *Teach For America*, or to make a contribution, call 1-800-TFA-1230.

Leanna Landsmann is an education editor and writer, and a partner in Landsmann & Schutz, a company that creates innovative programs and materials for students and teachers. Mary Harbaugh is a writer specializing in curriculum and education policy issues.

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Hard-nosed, charming, secretive, unpredictable. Meet Credit Suisse's Rainer Gut, the man who is making waves in Swiss banking.

Gut instincts

By Ron Cooper

Jane Eveny-Atwood Contact

Credit Suisse's inscrutable Chairman Rainer Gut

A savvy, tough manager who never fails to surprise.

BEFORE BEMUSED GUESTS at a swank Tokyo restaurant, ever-so-proper Credit Suisse Chairman Rainer Gut dipped his Swiss watch into a glass of water to show how waterproof it was. Submerging it next in a glass of beer, Gut pronounced it "also beerproof," then threw it against the wall to show it still worked.

But the show wasn't over. In front of his dining companions—a small group of First Boston/Asia executives—Gut submitted the watch to what he called "the ultimate test: the bullshit test." Dangling the watch in the face of a notoriously windy First Boston investment banker, Gut held it up triumphantly. "Look, it's still running."

The loquacious banker wasn't amused, but the other Americans howled at this decidedly un-Swiss behavior by the head of Switzerland's third-largest bank—$125 billion in assets—and its parent, CS Holding.

Gut (pronounced Goot) has been surprising his own troops and the staid Swiss financial community for years. Born in Switzerland, the 59-year-old Gut does not have a university degree but earned his banking stripes at Union Bank of Switzerland in New York in the early 1960s. He learned investment banking at Lazard Frères & Co., where he became a general partner in 1968, under André Meyer. Weary of Meyer's relentless gamesmanship, Gut quit Lazard in 1971 to become head of Credit Suisse's U.S. investment banking affiliate, Swiss American Corp.

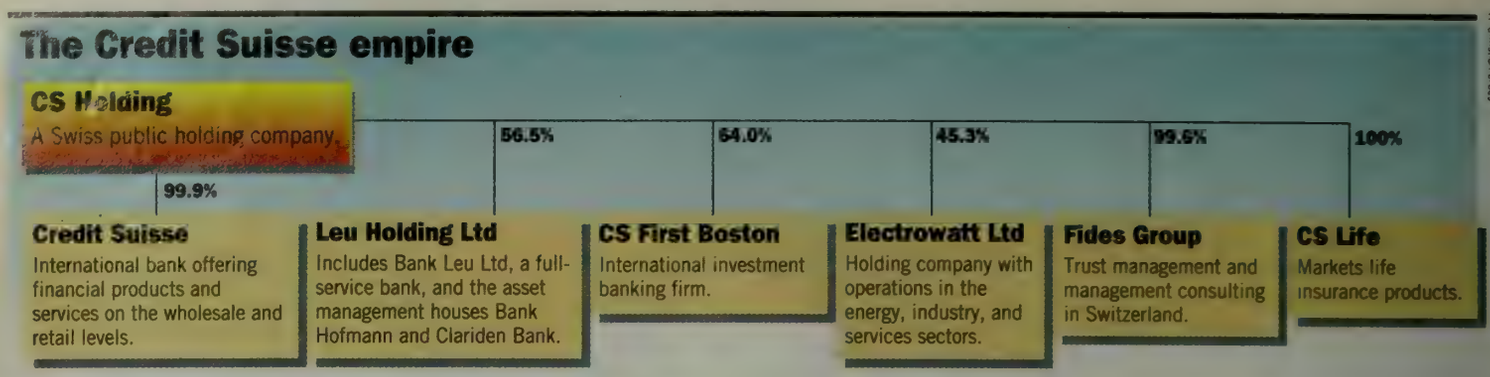
By 1973 he was back in Zurich working for parent Credit Suisse; when Switzerland's most notorious bank fraud came along, in 1977, it vaulted him through the management ranks. About $1.2 billion in fraudulent banking and foreign exchange trading was discovered at Credit Suisse's branch in Chiasso. Gut cleaned up the mess. By 1983 he was chairman of Credit Suisse.

Here's how James Davin, former head of international equities at First Boston and now an executive vice president in charge of worldwide equities sales at Lehman Brothers in New York, describes Gut: "He's very patrician, very cosmopolitan, steely-eyed, *big* handshake. He's got the whole act down."

The act includes a talent for secrecy when he feels it is called for. When First Boston went private in late 1988 the offering document disclosed that Gut received $13.51 million for his shares in Credit Suisse-First Boston—First Boston's sister firm in London—a fact not generally known until the document was published. This fact received top-secret treatment in the negotiations. At first the spaces relating to Gut's ownership were simply left blank when the document was distributed to the tiny working group putting the deal together. Only at the last moment did American lawyers representing Gut and Credit Suisse insert the information for the working group—with a stripe down the page making it unphotocopiable.

No one has accused Gut of any wrongdoing in the incident, but the tight-lipped secrecy was typical of the man. "Rainer Gut is inscrutable. He could be thinking anything and you wouldn't know it," says Frederick Van Vranken, head of syndicate at Sanford C. Bernstein, who worked closely with Gut at an American securities firm affiliated with Credit Suisse in the mid-1970s.

While he can be both charming and amusing, Gut is a tough character. At a 7:30 a.m. Zurich meeting back in 1979, Gut casually asked a group of his executives if there was anything important in the overnight news. One mumbled a story or two out of a newspaper. Fine, Gut said, but how about news affecting the business—like foreign exchange rates? The next victim smugly read off some numbers. Gut smiled and said: "Well, yes, but those are yesterday's rates, because



A Christie/Forbes

Gut's restructuring of CS Holding in 1989 finally put the bank and its maze of related firms under one publicly traded roof.

they are in the paper today. I'm wondering who can tell us the Swiss franc rates . . . today."

Silence. So Gut called on new board member Ernst Schneider, a German Swiss who had recently come to the bank from Irving Trust. Schneider rattled off the relevant rates to several decimal points. "Gut didn't say a word. Everybody in the room got the message," says James Walsh, who left last year as head of CS First Boston (Japan) for a similar post at Prudential Securities.

The message was: No more business as usual when he was in charge. Gut was the first among Swiss bankers to break with cozy little Swiss practices like "smoothing"—using hidden reserves to smooth out earnings bumps. He was the first to indulge in unfriendly bank takeovers with his absorption of Bank Leu in 1990. He was the first to jump into life insurance. And in 1989 he restructured CS Holding, putting the bank and its accountant's maze of sister firms and cross-participations under one publicly traded roof—but at a cost to Credit Suisse of about $80 million.

Gut's management style faced its severest test in 1990. Earnings at 135-year-old Credit Suisse, which supplies about 85% of the parent's dividend income, fell 30%, mainly because of a disastrous 62% drop in securities trading income. CS Holding had to slash its dividend by over 30%—a draconian move in yield-and-stability-conscious Switzerland.

Nor was that the worst of Gut's troubles. At 64%-owned CS First Boston—a linchpin in Gut's universal banking strategy—losses were $587 million last year, and the parent had to pump in an estimated $300 million capital infusion to keep it afloat. At newly acquired Bank Leu, a $44 million fraud by a branch banker reduced net income to a paltry $2 million.

Then the Swiss Supreme Court got into the act. The court ruled last December that Credit Suisse would have to lay in additional capital to provide equity backing for the entire Credit Suisse group; the ultimate amount is in dispute, but analysts say it will be more than $660 million.

But Gut has neither lost his touch nor run out of surprises. In July he revealed that first-half earnings—before taxes and loan loss provisions—for the Credit Suisse Group were up 70% from 1990. Those figures include only banking activities and subsidiaries worldwide, not CS First Boston or other operations. CS First Boston doesn't disclose earnings, but pretax, prebonus income for the period is believed to be $270 million to $300 million, up substantially from last year. Significantly, about 20% of Credit Suisse-First Boston's (London) earnings came from activities in eastern Europe, where Gut has gotten in early and profitably.

Where did the gains come from? From almost everywhere. Securities trading showed a 50% gain from last year's depressed levels, largely from foreign exchange, precious metals and bank-note trading. In banking Credit Suisse had almost no bad real estate loans in the U.S., and its net interest income was up sharply.

Clearly, Gut had been caught short by the turmoil that has swept the credit markets in the early 1990s. Equally clearly, he moved quickly and decisively to deal with the problems. He installed his personal choice in Manhattan as CS First Boston's new chief numbers cruncher—Credit Suisse executive board member Ruedi Stalder. Stalder's arrival, says one insider, "has made an enormous difference in terms of being orderly and getting things done."

Gut and Credit Suisse President Robert Jeker brought in McKinsey & Co. to study Bank Leu, which led to their closing nine branches earlier this year and refocusing Leu as a regional rather than an international bank.

Another Gut-endorsed creation, Credit Suisse Financial Products, which does interest rate and currency swaps, is having its first full year of operations and is believed to have played a substantial role in the earnings turnaround.

So with things now turning up, can Gut breathe a sigh of relief? A half-sigh, perhaps. Trouble could come from several quarters: Insiders say loan-loss provisions slightly exceeded $260 million in the first half. About two-thirds came from troubled corporate loans in the U.K. and Switzerland, the rest from bad Swiss real estate loans. Costs, up 8% at the half, are also a worry to Jeker, who says he may close some of the least cost-effective of the bank's 300 Swiss branches by year-end. Finally, a proposed equity offering for up to 20% of Credit Suisse shares can't get off the ground until the becalmed Swiss stock market perks up.

Still, most bankers today would be happy to trade positions with Rainer Gut these days. Full-year results for CS Holding likely will top the record of around $660 million in 1989. Rainer Gut continues to surprise. ■

Photographed in Kent, Connecticut

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Investors deserve a better break when it comes to learning about corporate environmental liability. Right now the numbers are pretty skimpy.

Messy accounting

By Reed Abelson

AMERICAN CYANAMID is involved in legal proceedings over cleaning up pollution at approximately 60 sites. How do we know? Because we searched through the notes tucked away in the back of Cyanamid's latest annual report. The note informs us the $4.6 billion (1990 revenues) biotechnology and chemical company may face "substantial" cleanup costs.

Substantial? What does that mean? Ten million dollars, perhaps? Or several hundred million dollars, enough to wipe out an entire year's earnings? The company doesn't say.

We're not picking on Cyanamid. It has plenty of company. Such reticence on the subject of environmental liabilities isn't rare, unfortunately. Most companies offer some kind of boilerplate in their annual report, but they differ widely on how promptly to reveal a problem, or how much to say about it. In most cases, says chemical analyst William Young of Donaldson, Lufkin & Jenrette, "we don't get very much specific disclosure."

Smith Barney's Tobias Levkovich puts the problem more bluntly: "It's obviously something that can come bite you in the butt." Specialty materials company Dexter Corp. (1990 revenues, $907 million), for instance, disclosed in 1989 that it faced possible environmental troubles at its Windsor Locks, Conn. facility. But this was specifically disclosed in the 10-K and not in the annual report, giving the impression that the problem was minor. Since then, Dexter has accrued $9.1 million in pretax charges for settlement costs and legal fees. Earnings were down almost 50% from last year, to only $12 million, in part because of these charges. Is there more bad news in the offing? Dexter won't comment.

Houston-based consulting firm Pilko & Associates recently surveyed 200 manufacturing executives representing a broad range of industries. About two-thirds had discovered an environmental problem just within the last year. Half were already involved in some sort of environmental litigation.

Yet the nation's accounting rulemakers have not provided guidelines on when and how to disclose the mess in your backyard. The applicable accounting rule is an old (1975) standard on the broad subject of contingent liabilities. A company must disclose a liability, it decrees, as soon as there is a "reasonable possibility" the liability has been incurred.

"Reasonable possibility," of course, is a bit vague, and practice diverges widely. Late last year a survey of 125 industrial companies by accountants Price Waterhouse found that just over a third disclosed their environmental problems to shareholders as soon as federal or state regulators tapped them on the shoulder. Some others disclosed before such notification.

Accounting guidelines say that as soon as a company considers a liability is "probable" and can reasonably be estimated, it must start accruing charges—that is, deducting amounts from today's earnings to cover the future expense.

But "reasonably estimated" is just as vague as "reasonably possible." Some companies seem to take advantage of this by taking the hits to earnings when it's most convenient. Last year Occidental Petroleum lumped $720 million of environmental charges into a $2.2 billion pretax big bath for "restructuring costs." Others wait for strong earnings to let out the news.

Not all the blame rests with the companies or their accountants. It sometimes takes the bureaucrats at the Environmental Protection Agency as long as 18 to 30 months to come up with estimates for different cleanup alternatives. There's also uncertainty as to whether the company's insurer will cover some or all of costs. And lawsuits with vendors or neighbors have yet to be resolved.

Still, the looming threat is a matter that greatly concerns investors, and they deserve better than they are getting in the way of timely warning. Consider the nat-

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ural gas transmission company Panhandle Eastern (1990 revenues, $3 billion). In early 1989 Panhandle acquired Texas Eastern, which tentatively expected a contingent liability of $400 million for the cleanup of 89 sites contaminated by polychlorinated biphenyls (PCBs). There was no estimate for other associated costs, like third-party claims.

The day after the merger Panhandle gave security analysts the impression that the $400 million estimate was "not only sufficient but generous." Yet in the second quarter of last year the company revised its estimate to $480 million. With the extras, which Panhandle said could add "more than $250 million," the total cost could come to $730 million.

Alan Gaines of New York's Gaines, Berland Inc., who is short the stock, thinks Panhandle is giving only the best-case scenario. "With their debt load [68% of capitalization], it would be important to know" the worst case, too, says Gaines. He says the total cost could easily top $1 billion.

Of course, you can't entirely blame managements for being coy about these numbers, which can hurt their stock badly. For years, industrial-equipment maker Duriron Co., Inc. said in its annual report it would have to clean its Dayton, Ohio landfill, and the cost "is difficult to project but could be substantial." Many investors shunned the stock, which never broke the $20 range. Last year a study of the site was completed, and the company finally announced it anticipated no "material" expense.

Still, environmental risks are part of the landscape today, and corporate management will have to face the risks. Dennis Beresford, chairman of the Financial Accounting Standards Board, agrees "there will be a call for more standard setting." Beresford warns that the task is a difficult one. Every oil leak, asbestos or landfill situation varies. Nevertheless, he hopes the standard setters will address the issue sometime within the next few years. We'd suggest sooner.

"In the end, it's all judgment," argues Norman Strauss of accounting firm Ernst & Young. True, but investors are entitled to some help in judging the risks. ■

California's Kasler Corp. excels in a competitive, tricky business.

"We're the pump"

By James Cook

"IF ANY BUSINESS is recession-proof," says E. Robert Ferguson, "public works contracting has got to be it. In a downturn public officials always try to prime the pump, and I guess we're the pump."

Ferguson's Kasler Corp. of Highland, Calif. is just about the biggest pump in the business, the biggest public works contractor in California and the number one federal highway contractor as well. And so far this year the pump has been doing very well. Nine-month earnings were up nearly 90%, to $4 million, on a 31% gain in sales to $145 million. Kasler's Nasdaq-traded common stock climbed from a split-adjusted 6 at the beginning of the fiscal year to 15½, before settling back to 10½ recently—18 times probable 1991 earnings.

The private toll roads that promised to open up a big new construction market in California have not yet gotten off the ground, but there are more than enough federal and state public works to keep Kasler and its competitors busy. On top of the federal programs, voters last year approved two propositions to fund a ten-year, $18.5 billion construction program through an increase in the gasoline tax. Exults Ferguson, 59, a University of Michigan civil engineer with over 30 years in the business: "It takes a while for money like this to get through the pipeline and come out as jobs. But it's on the way."

Kasler specializes in concrete and concentrates on southern California, the U.S.' single largest public works market. It paves roads and airports, builds bridges and dams, and it's now pumping 17 projects through the pipeline. These range from a more than $50 million contract to build a West Coast air facility for United Parcel Service, to the $124 million "Super-37" Century Freeway Project near Los Angeles International Airport.

In many ways public works contracting stacks up as one of America's stickiest, trickiest businesses. The contracts are fixed-price and always go to the lowest bidder. And before a contractor can even bid, he has to get a performance bond guaranteeing the job will be completed and paid for as

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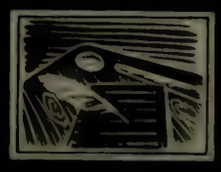

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While some states follow national trends, Alabamians lead advancements in a number of areas. Medicine is just one. UAB is recognized for several innovations. One UAB researcher has been chosen to go on a NASA space shuttle mission. He will perform experiments growing protein crystals in space, which may lead to the development of treatments for cancer, diabetes and birth defects. Other UAB researchers are world-renowned for pioneering the use of genetically engineered antibodies to search out and destroy cancer cells.

UAB's Medical Center has been twice named to the top three medical centers in the country by The Best In Medicine, a survey of 300 prominent physicians.

Health care is Birmingham's primary industry, with 21 hospitals in the area, including Baptist Medical Centers, the nation's fourth largest not-for-profit health care system. About 100,000 medical professionals come to the area each year for continuing education. And, as Bo knows, one of the world's recognized leaders in sports medicine has a thriving practice at Alabama Sports Medicine and Orthopaedic Center on the HealthSouth campus. Other well-known athletes who come to the Center for treatment include Jack Nicklaus, Charles Barkley, Jerry Pate, and Bruce Smith.

Dr. Jim Andrews with patient Bo Jackson at the Alabama Sports Medicine and Orthopaedic Center

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William Meyers-McGraw

Kasler Corp.'s Bob Ferguson
At $124 million, the "Super-37" contract was ideal.

promised, and this means he has to stay unusually liquid. Thus, Kasler currently has about $46 million in cash or short-term investments, over half of its entire assets. That cash cache has yielded $2.6 million so far this year, but most of it can't be committed to less liquid, if more lucrative, investments. "We have to keep that pot there to meet the bonding requirements," Ferguson says, "and the pot has to grow along with the business."

Not the least of the worries, a contractor on public projects is required by law to subcontract a certain proportion of every job to minority enterprises—10% on federal contracts, 20% on those in California, sometimes as much as 35%. Kasler tends to subcontract parts of the job—earth moving, reinforcing steel, signs, stripes on the road, and so on. But many minority contractors are so inexperienced they have to be taught how to do the job, and don't always succeed the first time—putting added financial risks on the prime contractor.

And finally there's the job of getting the bid together—costing out the concrete, asphalt, reinforcing steel, pipe, aggregate, labor and other elements needed to do a job that may take two years or more to complete. "How you put it together," Bob Ferguson says, "is where you make or break the job."

Ferguson knows those risks only too well. In the early Eighties business was slack, and Kasler began taking on jobs around the country—Texas, Utah, Hawaii. "If you're working 28 jobs in far locations," says Ferguson, "you need 28 of everything. It's more difficult to manage, and we had our setbacks." Kasler wound up losing $12.5 million after taxes in 1985 and 1986. It quickly retrenched to California, and by fiscal 1990 (ended last October) was back on track, earning $3 million on $153 million in revenues, for a hefty 18.6% return on equity. "If you can get this much," Ferguson says, "you ask yourself, 'Can I get a little more?' "

Kasler competes with heavyweight outfits like Fluor, Morrison Knudsen and Bechtel Group. "Our overhead is a lot less than theirs," Ferguson says. As for smaller competitors, "The bigger the job you go after, the more the competition thins out. You go to $100 million, where we prefer to be, and there are very few competitors." He argues that Kasler is the optimum size for these jobs.

Kasler's public works contracts take two years on average to complete and are worked down at the rate of $15 million to $20 million a month. Kasler bids on jobs on a continual basis, maybe once a week normally, every other week currently. The average contractor, Ferguson says, wins one out of every ten projects he bids on. Kasler itself averages one out of five, but that's just the average. "We bid 19 jobs this summer before we got one, but it's just the luck of the draw. And then it all comes around."

Kasler's backlogs are currently around $205 million, down from the record $300 million of early 1990. So, what about next year? With the backlog off, can Kasler sustain this year's record pace in 1992? "I look for next year to be every bit as good," Ferguson says, "and better." He figures it will take a good year or more to work off the existing backlog, and, given the state of the nation's highways, there will be plenty more contracts coming up for bid.

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GOODYEAR

THE BEST TIRES IN THE WORLD HAVE GOODYEAR WRITTEN ALL OVER THEM.

A perennial cellar dweller, major league baseball has finally hit a home run with its licensing program.

Going, going, sold!

By Seth Lubove

ONE OF THE many strong moves baseball's Chicago White Sox made last year came in the critical area of color coordination.

The Sox changed their uniforms from a boring red, white and blue to silver and black, a hot color combination. The team also changed its logo back to its old script lettering from the previous clunky block type.

That didn't help the Pale Hose much on the field, where they seem heading toward second place again this year. What it did do was take them from a lowly 18th among 26 teams in licensed merchandise sales last year into the number one slot. New Era Cap Co. of Derby, N.Y., which makes the league's caps, had a 100,000-order backlog of Sox caps this summer. Since the redesign, total Sox merchandise sales: over $80 million.

Don't thank the Sox management for this. Thank Richard White, president of Major League Baseball Properties, the league's licensing and marketing arm. White was tabbed to head the company in 1985 by then-commissioner Peter Ueberroth. Ever since, White has been a veritable marketing phenomenon.

For most of baseball's 150-year history, licensing was merely an afterthought. Total retail sales of licensed merchandise when White signed on were about $200 million—far behind those of the National Football League. Each team got an average $45,000 in licensing fees, and no team got more than $80,000. Roger Clemens of the Boston Red Sox makes more than that every time he pitches. Merchandise consisted largely of tacky trinkets and trading cards, T shirts and caps, peddled through overpriced stadium concession stands and sporting goods stores.

Today over 300 licensees market 3,000 different items with baseball's team logos and designs on them. Total retail sales should top $1.8 billion this year—up from $1.5 billion last year, which was far ahead of the NFL's $1 billion licensed sales and the National Basketball Association's $750 million.

With its 8.5% royalty on wholesale revenues, major league baseball takes in roughly $75 million, with each team getting about $2.6 million. You can still find tacky trinkets and caps for the kiddies at stadium stands. But now you'll also find baseball-related goods on the racks of higher-priced retailers like Nordstrom, Bloomingdale's and Saks Fifth Avenue.

Baseball's owners, always bellyaching about pinched revenues, are delighted. Says San Francisco Giants owner Robert Lurie: "I am overwhelmed. Rick has done an outstanding job, and it seems that every year he gets stronger and better."

Right off the bat, White got rid of 25 licensees who were selling shoddy-quality merchandise. Then, instead of waiting for licensees to bring ideas to the league for approval, White started churning out ideas himself.

One of the most successful has been the Cooperstown Collection, a line of high-quality reproductions of jerseys, team jackets and caps, including those of defunct teams like the Washington Senators and St. Louis Browns.

Rex Miller

Richard White, president of Major League Baseball Properties, Inc.

Leading baseball from an also-ran to first place in pro sports licensing.

"Nothing great was ever achieved without enthusiasm."

Ralph Waldo Emerson

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Photograph by Pete Turner

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In Touch with Tomorrow

TOSHIBA

Photographs by David Harsey

Nostalgia jerseys and baseball chic
White has taken licensing beyond tacky trinkets and caps for kiddies.

This isn't suitable garb for teens on the sandlot. White's target market: middle-aged fans whose allegiance to the teams they grew up with runs as deep as their grown-up pockets. Want an authentic New York Yankee jersey? Cooperstown wool-blend jerseys start at around $175. A replica jersey from the scandal-plagued Chicago Black Sox of 1919 goes for a mildly scandalous $245.

But White was right—the adults anted up. Sales of Cooperstown Collection last year hit over $200 million, and now the NFL and the NBA are scrambling to launch their own nostalgia lines. "Imitation is the sincerest form of flattery," says White a little smugly.

White also signed up chic New York fashion designer Nicole Miller to produce a line of silk camisoles, cummerbunds and bow tie sets, scarves, robes and boxer shorts, all featuring hand-drawn prints of scenes from baseball. At $100 for the cummerbund and bow tie, it seems like a lot to pay to get laughed out of the opera gala. The entire collection sold out at Saks within a month after its introduction last spring.

Emboldened, White has recruited clothier Alan Flusser, best known for his custom-made $1,000 suits for Wall Street heavies, to design a line of baseball blazers and other menswear that will hit stores in 1993.

For more prosaic team merchandise, White opened up Clubhouse stores under the auspices of the local club; there are currently eight of them. At the New York Yankee store on 59th Street, you can buy the full range of Yankee haberdashery—everything from $900 leather jackets to a replica cap from the 1927 team—as well as uniforms from other teams. But here, too, the White touch is at work. Teams used to throw away all the bats cracked in the course of a game; the stores sell them—at anywhere from $75 to $350 for a Don Mattingly autographed splinter.

White's calls have been so astute that major league teams wouldn't consider changing their uniforms without consulting him first. White takes into account not only how the uniform will show up on TV broadcasts—a team's best source of free advertising—but how easily it can be reproduced by licensees.

Two years ago White changed baseball's relations with Hollywood. It used to be that team owners were only too happy to allow movie producers to use their logos and uniforms in films—gratis. White insisted that Hollywood must pay baseball anytime a team logo is used. Baseball now takes in $1 million a year from Hollywood.

In the bargain, White also insists on script approval—you know, the good of baseball and all that. When NBC's *Saturday Night Live* asked to wear Yankee uniforms last year in a skit lampooning guest host George Steinbrenner, White nixed the idea. Ex-con and former slugger Pete Rose will soon appear in a made-for-television movie about Ty Cobb. But thanks to White, Rose won't appear in a baseball uniform.

White polices his licensing empire vigilantly. Bugs Bunny gets to use baseball logos, cartoon skunk Pepe le Pew doesn't. Altogether, White says he approves only 10% of the 200 or so license applications he gets each year. Among the proposed items you will never see on store shelves: major league condoms, toilet seats and jock straps.

Next, White will launch a line of merchandise for kids called Rookie League, and expand licensing to baseball's 152 minor league teams. International sales are growing fast, too, from $10 million at retail last year to an expected $34 million this year. In the next 18 months up to a dozen Clubhouse retail shops similar to ones in the U.S. will open in baseball-crazed Japan.

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In the U.S., Avon's mass direct-sales method is a bit out of date. In China, it is revolutionary.

Ding-dong, capitalism calling

By Andrew Tanzer

LIANG YUNGJUAN, 40, is a pediatrician in the city of Guangzhou (Canton), capital of free-wheeling Guangdong Province in the People's Republic of China (FORBES, *Aug. 5*). What does a Chinese pediatrician earn? About $120 a month. But Dr. Liang earned more than ten times that much last month—though not from practicing medicine. As a part-time Avon Lady, she netted $1,500, her share from the proceeds of selling $5,000 of makeup and skin care products.

"Avon has given me confidence in myself," says Liang. "I'm thinking of quitting my regular job to sell full time. My son says I love Avon more than I love him."

Although the slightly built, perky Liang is one of Avon's star saleswomen, she is by no means unique. Since setting up shop in Guangzhou last November and introducing the first direct-selling operation in Chinese history, Avon has taken this vibrant city by storm.

Avon met its six-month sales projections in its first two months. First-year sales will be $4 million. Five years from now, Avon figures sales could reach $50 million to $60 million, by which time it will have expanded into more cities and provinces.

Direct selling is stagnant in the U.S., where it has a slightly musty, 1950s aura of otherwise unemployed, unskilled housewives keeping themselves busy and earning a bit of spending money. But in mainland China, where the new lure of risk and profit is heady, this kind of marketing is a breath of fresh air.

Recruitment, increasingly tough in the U.S., is a breeze in China. Avon's entrepreneurial, incentive-based selling system has helped it pull in an elite

Guangzhou's well-paid, energetic Avon Ladies in action

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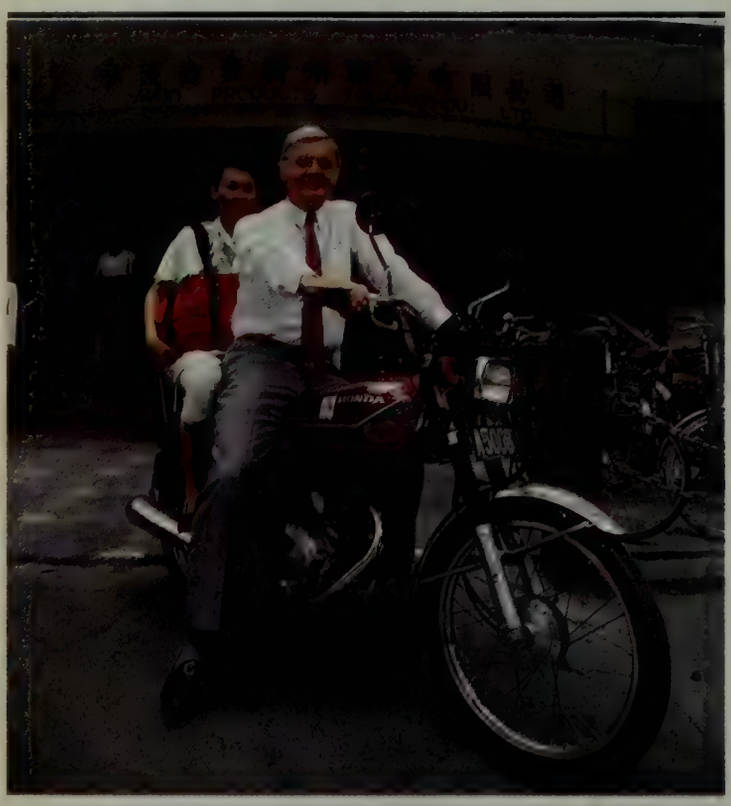
group of dealers—doctors, engineers, teachers and computer scientists. The manager of one of Avon's branch offices has a Ph.D. in economics. Most of these dealers hold theoretically full-time jobs, often with government agencies where the old communist rule still prevails: "They pretend to pay us, we pretend to work." So they feel free to clock in and skip work to peddle cosmetics.

Chinese women are starved for a bit of glamour. After spending 40 years swaddled in drab unisex Mao suits, with faces unpainted and hair uncoiffed, the women of Guangdong are eager to buy lipstick and skin moisturizer. Before Avon arrived, Guangzhou's women had money in their pockets but little to buy and no knowledge of how to use beauty products. Most cosmetics were sold in state-owned department stores, with spotty inventories and surly service.

The women are learning fast. "It's getting harder and harder to tell the locals and the Hong Kong girls apart now," says Samantha Kong, sales director at Avon's China subsidiary.

Yet this wasn't an easy market for Avon to crack. In the mid-1980s Avon spent five years negotiating with government authorities in Beijing for a venture in northern China. "We didn't get anywhere," says John Novosad, Hong Kong-based vice president in charge of Avon's Pacific operations. "They didn't understand the concept of direct selling and didn't know how to deal with it."

After banging its head unsuccessfully against the Great Wall, Avon finally sought the advice of David Li, the astute chief executive of Hong Kong's Bank of East Asia. Li, a member of Avon's international advisory board, suggested the company try Guangdong, where a runaway capitalism is fast overwhelming the official communism. Avon hammered out an agreement with provincial officials in late 1989 after a year of negotiating.



Simon Go

John Novosad, Avon's head man in Asia, with sales manager Donna Wen **Before Avon arrived, Guangzhou's women had money but nothing to buy.**

Avon holds a 60% stake in the China joint venture. Guangzhou Cosmetics Factory, its local partner, has 35%; Li and another Hong Kong businessman have 5%. A full line of Avon cosmetics is bottled and packaged in their Guangzhou factory. The average product sells for $5—more expensive than the shoddy local stuff but cheaper than imported product.

Avon's Chinese venture works a little differently from the U.S.' operation. Instead of delivering merchandise directly to its Avon Ladies, Avon has the saleswomen pick up merchandise at branch depots, avoiding added problems with tangled communications and transportation.

Avon's salaried sales managers recruit, train and manage what it calls "franchise dealers." These women cultivate clients and earn commissions of up to 30% of their sales. A franchise dealer can supplement her own efforts by appointing Avon Ladies, or sales representatives. The dealer gets a third of the 30% commission earned by her reps. On average, each franchise dealer utilizes 4 Avon Ladies, giving Avon a local sales force of 25,000 (Dr. Liang is a franchise dealer).

The top franchise dealers earn $2,400 to $3,000 in commissions a month—this in a country with an average per capita income of $350 to $400 a year (Guangzhou incomes are two to three times the national average). The average dealer income is $60 to $80 a month for an hour a day of selling, or slightly less than wages for a typical 48-hour-a-week full-time job in Guangzhou.

There is a difference, of course: The Avon Ladies really work at their Avon jobs; they essentially dawdle at their socialist jobs.

Guangzhou's Avon Ladies don't press doorbells as their U.S. counterparts do. The old "ding-dong" door-to-door cold-calling technique arouses suspicion in China. Some sales are made to friends, relatives, neighbors and co-workers. But the big-volume sales come from offices, factories and schools. Franchise dealers are invited in by *danwei*, communist parlance for work units, to give informal seminars on skin care, makeup and grooming skills.

The market is different in other ways. American women are big buyers of makeup; Chinese women go in more for skin care products. Two of the best selling products in Guangzhou are Momentum ($7), an anti-aging lotion for daytime use, and Night Support ($19), a nighttime equivalent.

But when it comes to selling hard, China's Avon dealers can be as tough-minded as any American veteran. "I thought we'd have to teach them how to calculate a commission," says Novosad, "but one of the dealers told me to double prices so she could make more money." There are lots of things about human psychology that Karl Marx simply never grasped. ■

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Having long ago lost the battle in home entertainment electronics, U.S. industry has a golden chance for a comeback. If it blows it, it may lose out in desktop computing as well.

Now or never

By George Gilder

Frox Chief Executive Austin Vanchier, with his smart TV **You might not want to spend $7,000 on one, but telecomputers are going to get a lot smarter and a lot cheaper.**

IN THE ANNALS of American business decline, no failure is more stark than the loss of the mass videotape recorder market. The popular and useful gadget was developed by Ampex in California in 1961 and priced at $20,000 as reel-to-reel industrial equipment. The Japanese figured out how to make a cassette version of the thing for a mass market at $250.

Not just VCRs but almost all the home entertainment equipment that has become ubiquitous in even the humblest American home is made and marketed by Japanese companies. Long gone are such once famous American names as Philco. Even mighty GE has ceded most of the market. In Europe, where protectionism remains strong, Matsushita is crowding the traditional European makers like Philips and Thomson.

But a second chance looms. Over the next few years there will be sweeping technological changes that will create a window of opportunity for American companies and a window of vulnerability for the Japanese.

Two major products are converging. The home computer is becoming more like a television, the television more like a computer. When these two appliances converge into a single box—smart TV, we could call it—a worldwide electronics market worth hundreds of billions of dollars a year will be at stake. It will dwarf the present home entertainment market, which the Japanese control.

Andrew Lippman of MIT's Media Lab put the situation bluntly. In a memo he delivered to a congressional committee, he wrote: "Forget television sets. In three years there won't be any. Instead, there will be computers with high-quality display screens. Inside, there will be digital instructions allowing them to receive ABC, HBO, BBC and anything we can dream up."

Will the market for these new machines belong to the Japanese firms that now control two-thirds of the home electronics market? Or to the U.S. computer industry? It could go either way.

Crammed with memory chips, mass storage devices and special microprocessors that add and multiply, TV sets will change from passive receivers of preformed pictures into digital broadcast stations.

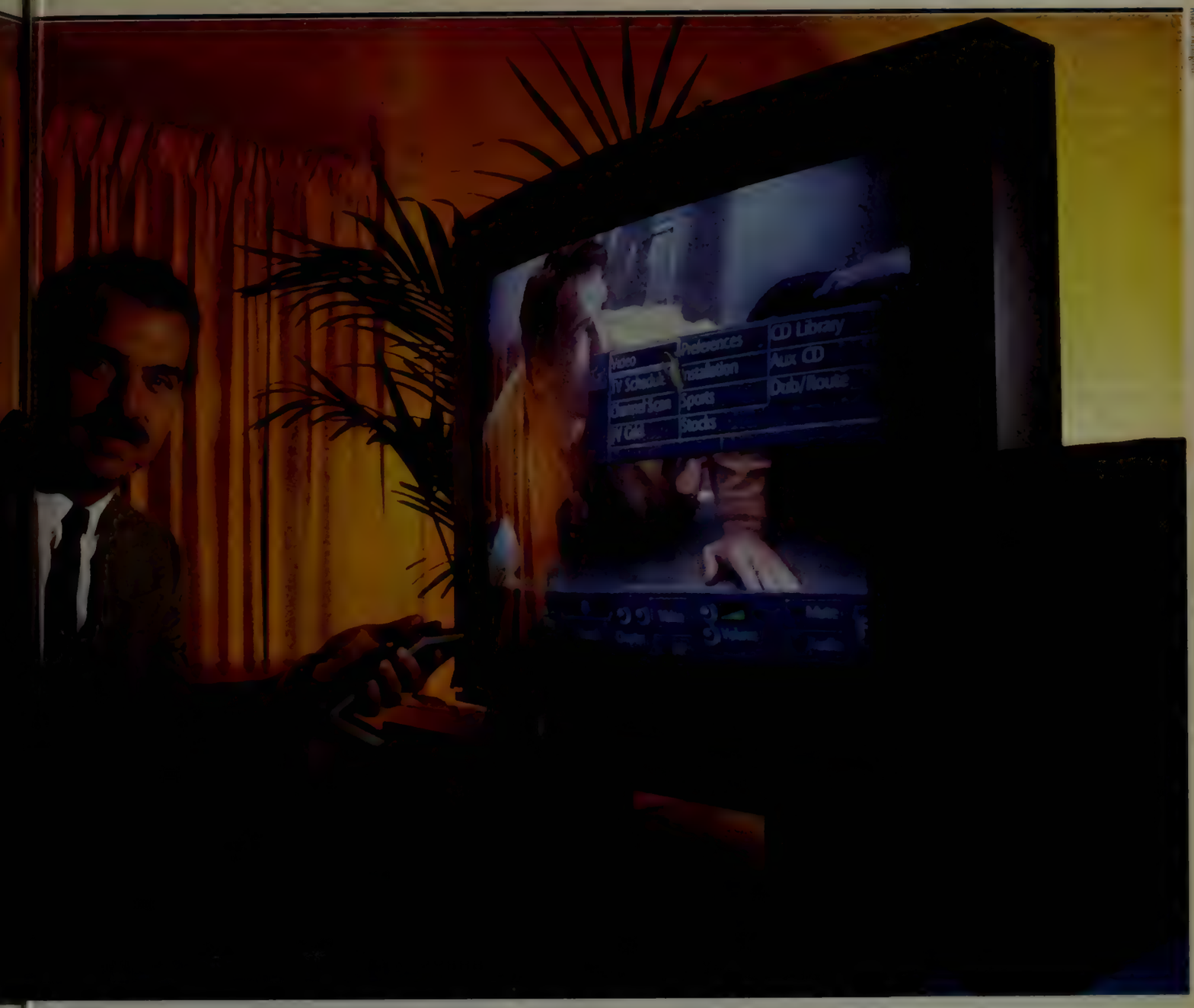
While receiving and displaying images better than existing TVs, the new machines will also process, store, create and even transmit the images in computerized form. This smart TV, or telecomputer, will eventually be linked to the world by telephone-style networks that will switch video as readily as they do voice today.

Over mostly fiber-optic cables, you will tap into any TV station, theater, film, schoolroom, sports event, church, library or conference attached to the network. You will be able to collaborate with others better at home, without distractions, than at an office.

The good news is that the home entertainment hardware market, now firmly in Japanese hands, will come up for grabs. The bad news is that as computers and TV converge, the Japanese will have a splendid opportunity to capture the computer business from the Americans.

The computer business will expand explosively. Computers will move from a market of millions of desktops to a global market of hundreds of millions of living rooms. The telecomputer will in all likelihood displace the TV, VCR, game machine, home video editor and all the rest of the gadgets with which the Japanese clobbered the U.S. consumer electronics industry.

As the battle lines form, there are



advantages on the U.S. side. U.S. companies still dominate such key technologies as software and microprocessor chips (the brains of a computer). But the Japanese have advantages, too. Japan's computer firms are deep in consumer electronics, and its consumer electronics firms are deep in computers and chips. Japan's two leaders in consumer electronics, Sony and Matsushita, make more chips than any American computer company except IBM. Both make computers for U.S. firms. Matsushita manufactures IBM's P70 portable PC and Sony has reportedly contracted to manufacture Apple's notebook. Sony is second only to Sun Microsystems in computer workstations in Japan.

Sony and Matsushita are both on the leading edge in entertainment hardware: Some of their TV sets contain more microchips than low-end computers do. NEC is at once the world's leading vendor of chips to other manufacturers, the leading manufacturer of computer monitors and a major manufacturer of computers and TVs.

The convergence of computers and television is not a theory in Japanese consumer electronics; it is a fact of life. Even Fujitsu, a computer firm seemingly distanced from the entertainment market, proves the rule by making both one of the world's smallest cellular phones and, visually speaking, the most dazzling home computer, the FM-Towns machine. With a superbright screen and a digital compact-disc video player onboard, it has sold some 250,000 units in Japan without being compatible with anything else.

The key to this transformation is digitalization.

Just what is the difference between analog and digital? Analog waves are 19th-century technology, the medium of Alexander Graham Bell's telephone. They are also the medium of existing TV signals and TV sets, of high-definition TV proposals from Europe and Japan, VCRs, cassette tapes, laser-disc movies, plastic records, most local telephone lines and existing cellular telephones. Digital bits are the medium of newer technologies: computer microprocessors and memory, compact discs, high-definition TV proposals from U.S. compa-

nies and proposed upgrades to the cellular and local telephone systems.

Why can't electronic gear remain analog forever? Analog signals are application specific. Like the grooves of a vinyl record, the helical print on a videocassette or the chemical patterns on film, they directly mimic the shape, timing and character of the signal they record, whether sound or image. Thus analog signals must normally be sent and played at the same pace they were recorded at (or Dan Rather begins chirping like Donald Duck). Analog signals tie the receiver to the transmitter in a lockstep rendition of the signal.

Hostile to editing or manipulation, every analog signal is different from every other. Using them, the Japanese have created an array of ingenious entertainment devices, but they are essentially incompatible with one another. The VCR, for example, can communicate with the TV only by simulating a television station and sending the picture via a high-frequency carrier as if it were being transmitted miles through the air rather than inches down a wire.

Digital signals, on the other hand, are all homogeneous bits, on-off codes that can be easily stored, compressed, error-corrected, edited and manipulated.

A simple illustration of digitalization is the compact disc player: The disc is almost immune to scratches because the bits are made redundant and ingeniously shuffled before being imprinted on the disc. For related reasons, you can program a CD player in ways that you cannot program your record player.

But the power of digital goes far beyond such conveniences. Rather than incompatible, single-purpose functions, digital signals foster the rich interactive and relatively open world of the personal computer. In digital TV, the station sends not a picture but information about the picture; the image itself is formed and controlled not at the station but in the telecomputer itself. The picture can easily be made scalable, offering more detail in a TV console model than in a tiny portable.

At Japan's MITI and in Europe's Eureka project, the bureaucrats still believe that the key coming advance in TV is higher-resolution images. But high definition represents a trivial ad-

Putting the squeeze on data

THE DIGITAL telecomputer would be unthinkable if it had to work with video data files in their voluminous original state: There might not be space in the transmission signal for all the data bits, and there definitely wouldn't be space inside the computer. So smart TV will work on compressed files, in which the redundancies and irrelevancies in the raw data are squeezed out. The compressed file is de-

vance compared with the changeover to all-digital TV, that is, turning the TV into a digital video computer that can store, edit, originate and transmit images as well as receive them.

The Americans still excel in digital technology. The question is: As home entertainment enters the digital age, will the American companies press their advantage? There is hope in the recently announced mutual assistance pact between John Sculley of Apple and John Akers of IBM. Apple, after all, is one of the most visually oriented of computer makers in its thinking; IBM remains the largest.

Curiously enough, Apple's Sculley, while still a teenager, practically invented a TV, losing a race to the patent office against the eminent inventor Ernest O. Lawrence to register a color scheme later used by Sony's Trinitron tube. Nowadays he is preoccupied with getting more Apples onto corporate desktops. But he's still thinking about entertainment media. At a MacWorld exposition in Tokyo earlier this year, Sculley introduced the concept of television paradigm number three—"P3 TV."

Paradigm one was broadcast TV. Paradigm two was cable. Paradigm three? Unlike broadcast and cable, P3 would be "scalable, interactive and personalized." Rather than a broadcaster-dictated system displayable at only one resolution, P3 TV could be displayed at different resolutions in palmtop TVs and projection sets and access a wide array of interactive shows adapted to the interests of the viewer. For example, a student might tune into a lecture at home, question a lecturer or be questioned by him and take tests on the screen.

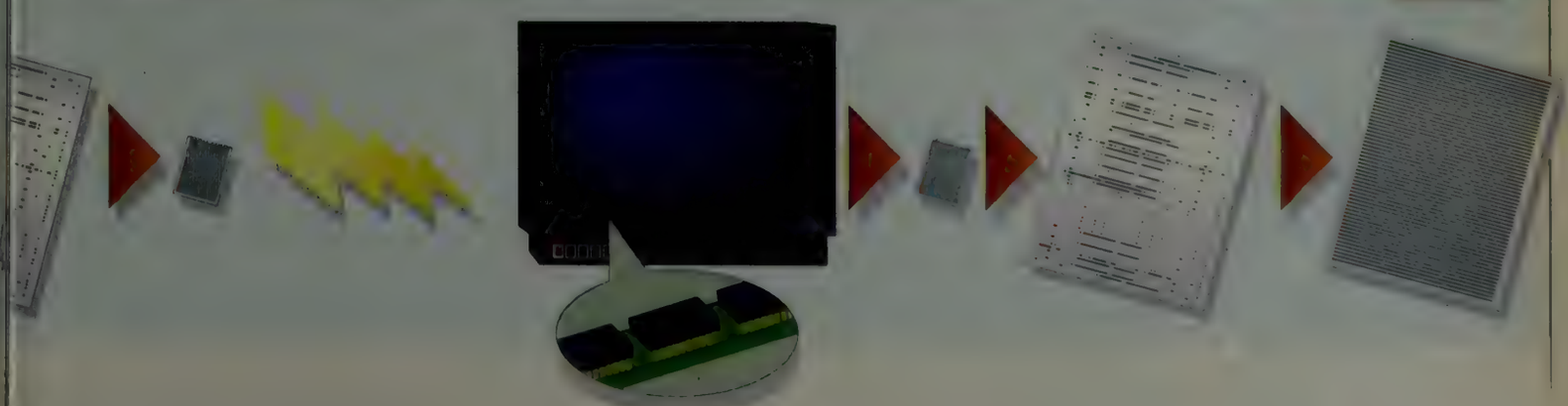
In other words, the P3 would be a telecomputer. Is Apple planning to market one anytime soon? Unfortunately, there is little serious sign of it. Nor is there any serious sign at Sun, Next or Compaq, not to mention the larger American computer firms. U.S. computer companies are all pushing for multimedia machines that can combine graphics, sound and video with text in a single program or file, but chiefly for business presentations. That was Ampex's mistake three decades ago.

Engineers interested in creating a P3 machine had to go outside Apple and the other leading computer firms to get backing. They went to fringe

compressed for playback.

Video compression capitalizes on the fact that the pixels on a screen are far from random. They are, to a degree, predictable: If the dot three inches down and four inches across is blue, then the dot right next to it has a high probability of being blue as well. This similarity of a pixel to its neighbors works in three dimensions: horizontally, vertically and across time. A frame this instant may be identical to the frame that follows one-thirtieth of a second later in all but the motion of a hand toward a pistol. The compressed video does not represent each frame, dot by dot, from scratch. Rather, it describes a frame by describing the highlights of the changes from the previous frame. There are other, more mathematically subtle, tricks.

How much calculating goes into a tightly compressed video? Staggering amounts. To keep pace with a movie running 30 frames a second, even at low definition, Integrated Information Technology had to put a supercomputer on one chip. And indeed, at its highly specialized task, doing some 2 billion additions, multiplications and other tasks per second, the chip is faster than some supercomputers. For HDTV, the chips could be stacked in parallel to deliver perhaps 10 billion operations a second. –G.G. ■



R. Mansfield/Forbes

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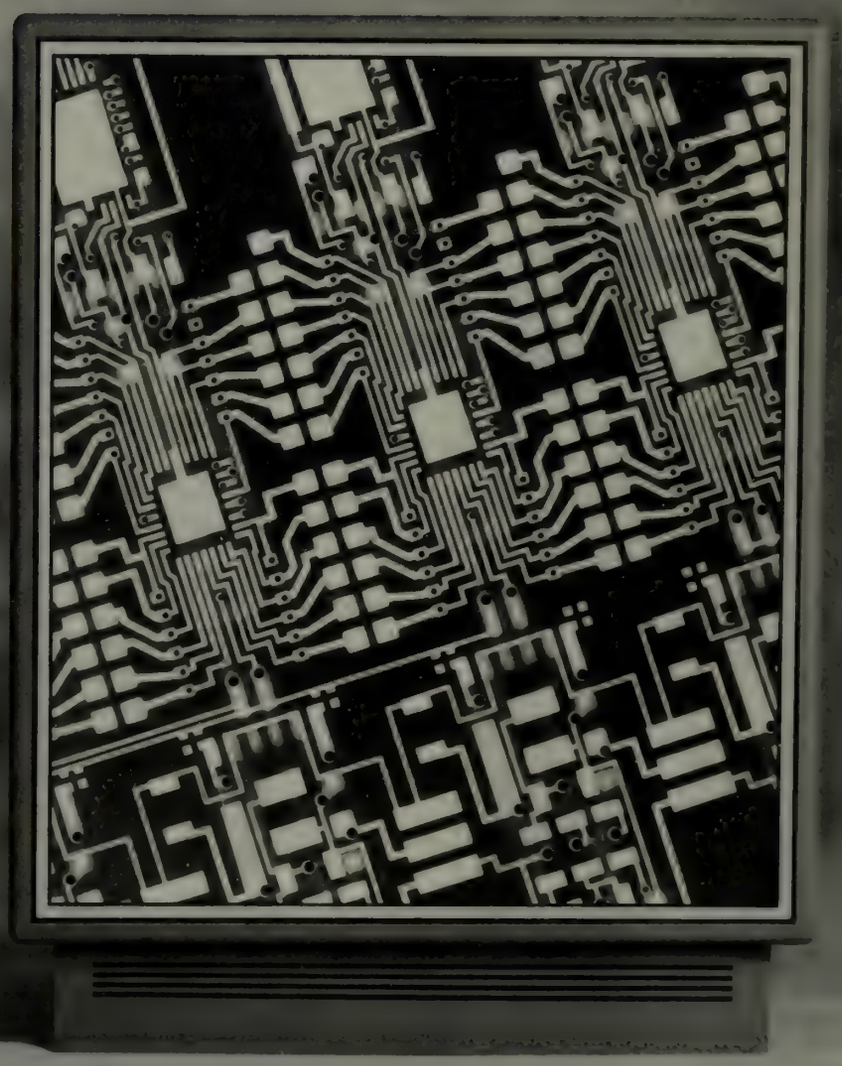

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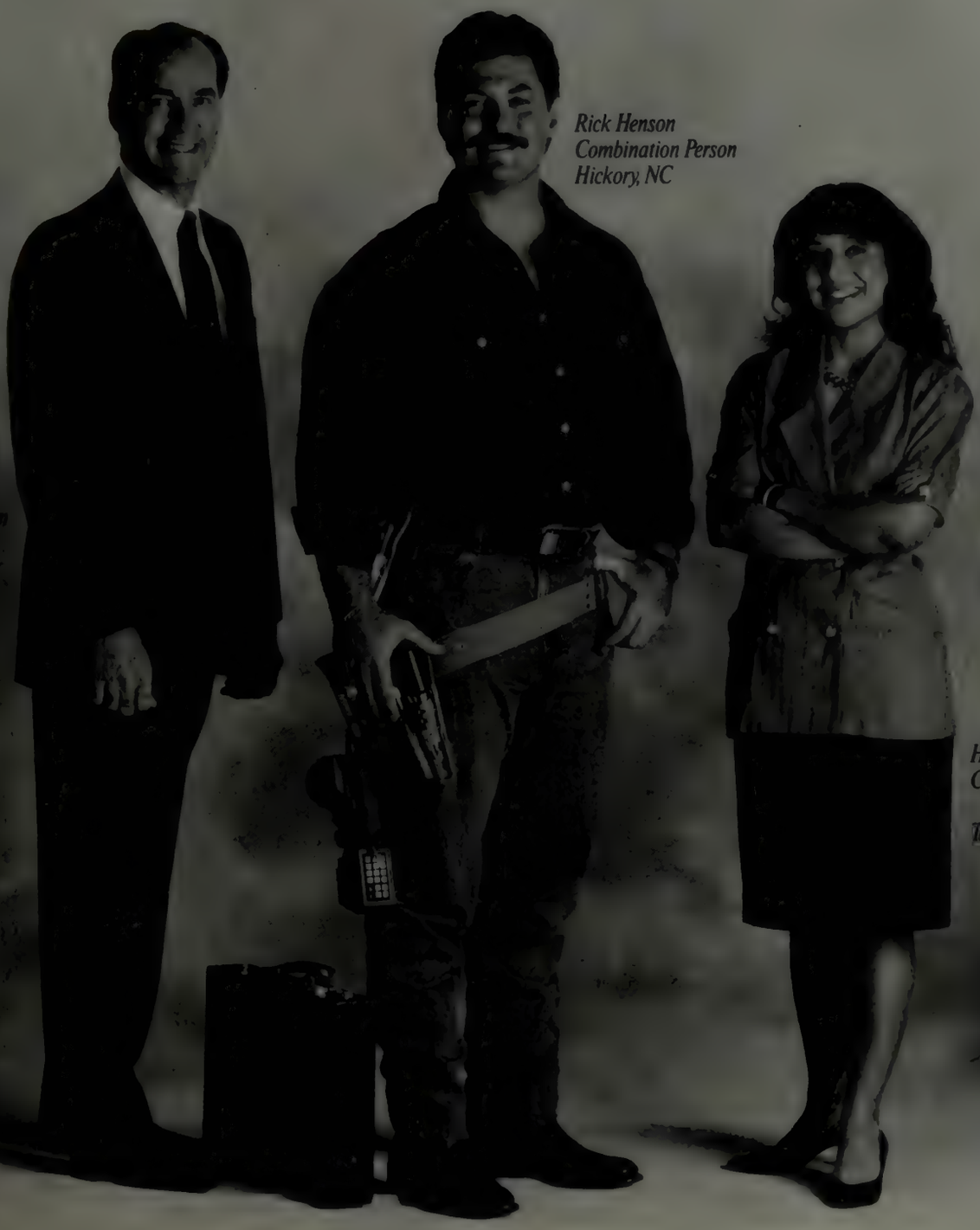

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Photographs by Sam Rosenak

Segment from a low-definition analog TV screen (top) and from a high-definition digital TV; Nicholas Negroponte, founder and director of MIT's Media Lab

His definition of a TV is a computer.

players such as Commodore International, component suppliers such as General Instrument, and an array of new ventures.

Three years ago, for example, Macintosh pioneer Andy Herzfeld, Sun luminaries Andreas Bechtolsheim and Peter Costello and Next industrial designer Hartmut Esslinger joined to help launch Frox Inc. in Sunnyvale, Calif. This fall, in presentations in Los Angeles, Baltimore, San Francisco and New York, Frox will introduce a telecomputer.

Frox machines are actuated by a remote-control wand that controls an entire array of video and audio appliances. The Frox machines digitize ordinary TV images, doubling the number of lines of resolution and upgrading the pictures to near high-definition quality. The upgrading couples the high-definition images with compact-disc quality "surround sound." The wand allows you to program the VCR, search databases for prechosen items, and eventually will even connect to the telephone.

Frox takes instructions from the user in the friendly icons (pictographs) of Apple computerdom. This is not surprising, since the author of that innovation at Apple was Frox's Herzfeld. The box is driven by a Sun Sparc chip conceived by Bechtolsheim of Sun and made by Cypress Semiconductor. The machine has image processing powers from four custom chips designed by Frox and made by Toshiba, and sound effects from as many as 16 Motorola digital signal processors. It has the overall processing power of a computer running 200 million instructions per second.

At the low end, Frox machines sell for $7,000. If this sounds like a lot, remember that they contain the sort of supercomputing power that, a decade ago, would have carried an eight-figure price tag. Created in consultation with Nicholas Negroponte, the director of MIT's Media Lab, Frox fulfills his prediction of TV as living-room supercomputer.

Frox would look good in Sun's product portfolio or Apple's. Chief Executive Austin Vanchieri would like to make a deal with a corporate partner. He approached Apple to tap into the creativity of Macintosh multimedia, but Apple is not interested.

IBM seems equally aloof, supporting scores of R&D projects that pertain to image and video processing, but none as commercially practical as Frox or as ingenious as Apple's multimedia efforts.

For now at least, the American companies seem fixated on defending their desktop dominance against the Japanese rather than moving that dominance into the living room. This defensive strategy is a mistake. This is clearly a case where the best defense is a good offense.

Why is smart television, which MIT's Negroponte has been talking about for decades, only now becoming a reality?

Until recently it would have required a TV set the size of a medium-size automobile and costing millions of dollars to process digital video. The reason is that raw video images contain massive amounts of data; one minute of a low-definition color television program would overflow a 600-megabyte compact disc and take upwards of an hour to play back. It was such arithmetic that led television manufacturing executives to say, only a few years ago, that computerized television was impossible.

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Two technology breakthroughs have saved the day: compression and miniaturization. Compression is a scheme for shrinking huge data files, via a form of mathematical shorthand. Miniaturization is the other half of the picture. It means that a transistor that once measured half an inch across and cost a dollar now measures 20 millionths of an inch and can be had for 500 millionths of a cent.

The two technologies go hand in hand. Compression of files for storage and decompression for playback requires a staggering computational effort—billions of additions, subtractions and multiplications every second, if your high-definition television is going to keep up with the action in the movie. Thus, the compression solution would be no solution at all if the computation demanded a $12 million Cray tucked behind the sofa. To the rescue comes the ever-shrinking transistor. The same chip technology that makes megabyte computer memories tiny and affordable also makes supercomputers tiny and affordable, at least if they are dedicated to certain repetitive tasks.

The Sarnoff Labs in Princeton, N.J. made a giant leap forward in compression three years ago with its Digital Video Interactive system. Intel, the microprocessor chip manufacturer, bought the invention and put it on chips. Now competitor Integrated Information Technology has demonstrated digital compression of video images at ratios over 1,000-to-1. The four-year-old startup in Santa Clara, Calif. farms out its production to National Semiconductor Corp. and Hewlett-Packard.

Last month Integrated Information produced the first one-chip video compressor/decompressor that can be programmed for use with all important digital video standards—from still pictures and teleconferencing to full motion. With several chips stacked in parallel, the system could even handle HDTV. Currently selling for $150 apiece, this multipurpose chip could soon open the way into home markets.

This supercomputing on highly specialized chips is a strength of U.S. industry yet to be seriously challenged in Japan. If high-definition television sets turn out to be digital computers, this strength can be an American asset as significant as Japanese strength in manufacturing.

Fortunately, our Federal Communications Commission at least seems to grasp the situation. The FCC had set a June 1, 1990 deadline for submissions on high-definition TV. As the deadline approached, it appeared that the U.S. television industry was going to respond to the ten-year Japanese program in high-definition TV with just another set of analog schemes. The only significant feature of their HDTV codes is that they would be incompatible with Japan's Hi Vision.

At the last possible moment before the deadline, however, General Instrument Corp. totally overturned the analog applecart. Flouting the views of all the experts in their industry, General Instrument used digital signal processing and coding expertise developed for its satellite VideoCipher descrambler box to develop an all-digital proposal for high-resolution broadcast TV.

Alfred J. Sikes, the forward-looking FCC chairman who joined the commission in 1989, was delighted. Ignoring the stand-patters, Sikes pushed gently but persistently for digital solutions from all applicants. (The digital signal would be broadcast alongside the existing low-grade analog signal. John and Jane Voter would have the option of hanging on to their old set and getting a low-resolution picture.)

Today, 16 tempestuous months later, the FCC is preparing to test digital high-definition proposals from four American applicants and a lone analog proposal from Japan. Meanwhile, the Japanese experts on high-definition TV are said to be plotting a national project to catch up to the U.S. in digital systems.

Regardless of the outcome of the FCC tests, the first of the digital systems likely to go into commercial use will be General Instrument's DigiCipher. As a compression scheme to increase the capacity of satellite transponders, DigiCipher will be launched next summer under the name DigiSat and will multiply the number of ordinary TV programs transmitted by a satellite by a factor of eight or better.

Then, as high-definition programming comes on line, General Instru-

Barbara Kinney

FCC chairman and digital fan Alfred Sikes

U.S. applicants have put in four digital high-definition TV proposals. The lone analog holdout is from Japan.

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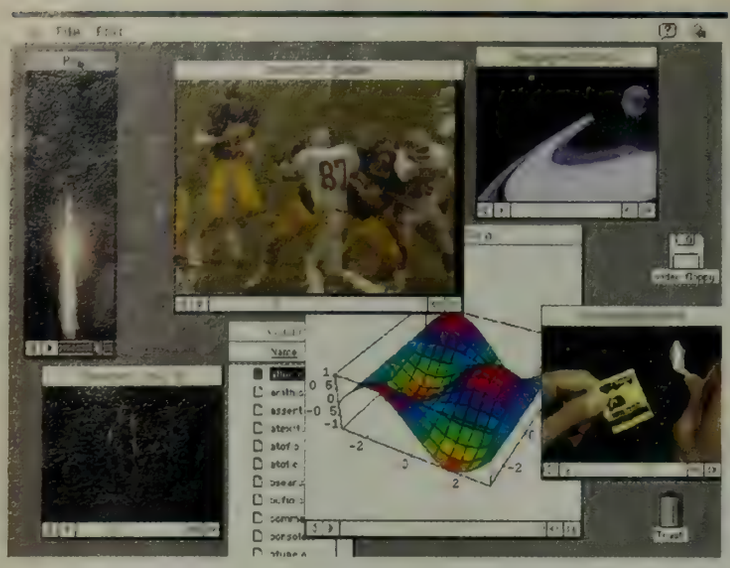
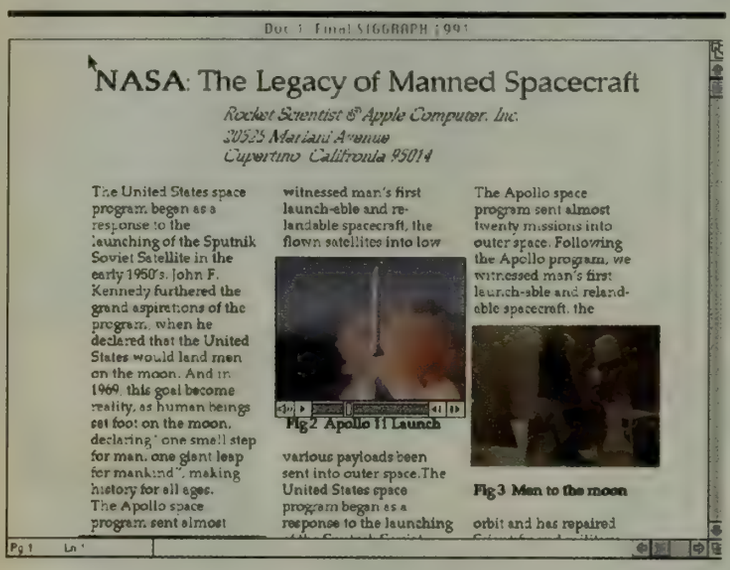


Eric Hofer/Apple

Apple's QuickTime multimedia system **High time Apple made the leap into the telecomputer market?**



ment can phase it in on the same equipment without waiting for a full high-definition market to emerge. The firm aims to combine its digital high-definition system with its existing descramblers and cable converters, already used in millions of U.S. homes, and create a new multipurpose telecomputer.

Appearing in 1992, digital satellite systems, in conjunction with cable, may well first fulfill the true promise of digital television: aggregating specialized audiences across the country into lucrative targets for narrowcast programming and advertising, including programs of adult education, specialized business news, hobbies and technologies.

All the while television is becoming more computational, computers are becoming more visual. Commodore and Silicon Graphics have recently introduced significant new multimedia boxes for under $10,000. Will these players go the way of Ampex, letting the Japanese ride the learning curve down to home-entertainment prices? The machines are as powerful as the $50,000 graphical workstations of a few years ago; there is no reason that they cannot be delivered for $2,000 a few years hence.

Apple, meanwhile, has a digital-based multimedia system called QuickTime. A vehicle for editing and integrating sound, video and graphics, QuickTime also can provide rapid compression and playback of digital video. Clearly, Apple sees a business market here: You could do a great sales presentation with a multimedia system. But Apple has yet to make the leap into the television market.

Here's how television programming could work, as little as three years from now: Every home in a neighborhood is connected, whether by cable or powerful wireless systems, to a high-capacity fiber-optic network. A viewer could dial up a month's worth of selected movies or Harvard Business School courses and receive them in a five-minute burst of scrambled bits. With a meter in his set, the viewer gets billed only for the items he decides to descramble. Politics could, of course, slow the transition to a competitive, digital information delivery system; but the technology is there.

Is a fiber-optics network affordable? Scientists at BellSouth have declared that fiber is now cheaper than copper wires in new construction, at least when you allow for future maintenance costs.

A digitally switched fiber-optic network, now practical for the first time, could break the world of video wide open. Satellite and compression technology will come on first, with hundreds of channels. Switched fiber optics and computers offer the potential of tens of thousands of channels—as many as there are entrepreneurs who want to go into business running information depots. With video connections as convenient as the telephone, teleconferencing, teleparty-ing, telemedicine and telelibraries move from costly luxuries for corporations into the consumer domain.

On all fronts—computers, phones, television, publishing, photography, stereos and films—the world of information is converging into a digital computerscape. Yet in TV, the Europeans and Japanese still do not get the picture. Jacques LeRoudier, head of a European Community technical committee, says: "Digital television will be impossible for another ten years." Both Europe and Japan are attempting to protect their TV industries by a proprietary set of standards.

Let them protect themselves into an analog corner; in time, analog technologies will be irrelevant. Over the next ten years the U.S. computer industry can not only maintain its own dominance but take as well a big piece of the growing world market for home entertainment and information hardware and software. But in order to win, U.S. computer executives will have to think boldly rather than defensively. They will have to reassert some of the old self-confidence that once made U.S. industry the wonder and envy of the world. ■

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In honor of ink

COMMENTARY BY ESTHER DYSON

Esther Dyson is editor and publisher of the newsletter *Release 1.0.*

ARE YOU A FAN of the new pen-based computers? Many people question the value of pen-based computing because handwriting recognition is still crude. However, they're focusing on the wrong issue. Assuming that you need near-perfect handwriting recognition assumes that the computer needs to understand exactly what you're doing.

Sometimes low tech can win over high tech—especially when low tech is simpler to use.

In fact, in many cases all that's needed is that you or some other person understands what you've written—and that you tell the computer enough about it so that it can handle it appropriately. The computer doesn't need to know what's going on. In fact, thinking of the pen as a second-rate keyboard is like thinking of a bicycle as a second-rate car. The pen works better on its own terms.

In a similar vein, pundits tended to dismiss fax because electronic mail was more "powerful." Electronic mail gives you the ability to sort the mail, respond to meeting requests automatically, send spreadsheets or financial models and get an acknowledgment of receipt. It's flexible and powerful. In theory, it should be much more common than facsimile, which transmits pages just as inscrutable to a computer as handwriting.

So why has faxing taken off, while e-mail is still (mostly) a technology of the future? Because a fax transmission is simple. There's no worry about formats, compatibility or e-mail addresses. If you can put a piece of paper in a machine and dial ten digits, you can get your fax through.

In the same way, "ink"—handwriting and other pen input—doesn't require special interpretation, and it can be freely transferred from program to program, place to place and user to user. Take a hastily scribbled "Juan c/o Alice on Tues." The computer that attempts to read handwriting might be able to give you "Juar CIO *lice on Tues." But what you need isn't that; you really want it to know that any messages for Juan Tigar, the accountant who's working on the year-end update, should be forwarded to Alice the lawyer on Tuesday.

In this case, perfect handwriting recognition would give you both more and less than you need. What you really need is the identity of Juan, not a string of text. You may want to redirect e-mail messages for him, or you may want to change his telephone number temporarily so that you can call him yourself.

Either way, what you really want is to get at his record in your electronic name and address file. It's probably a lot easier to get that by selecting your list of contacts from a menu, then the letter "T" from a list of initial letters, and finally Juan Tigar's name from the "T" name on the list. Only three or four penstrokes in all. Then you grab his name (with your electronic pen) and move it to next Tuesday on your calendar. Next you get Alice's office number and address the same way, and assign them to Juan for Tuesday only by using another menu item from your mail program: "Change address/contact information temporarily."

On the other hand, you may be scribbling notes to yourself on what to tell Alice about the contingent liabilities of your aggressive new ad campaign. These aren't things that you want the computer to understand or to handle, although you want them filed under "ad campaign," under "liabilities," under the date of the meeting and perhaps "lawyers" or "legal" or "Alice Haynes." (Or perhaps you want to erase the evidence entirely!)

Thus the issue isn't text recognition, but the proper handling of the "ink" produced by the user with his pen, whether recognized as characters or not. The ink may be an annotation, to be kept with a certain named range (which may move from cell to cell) in a spreadsheet, or attached to a personnel record, or assigned to a certain day. It can be moved from day to day if the appointment changes.

And it is handled by reference to the item it's attached to. It can be classified in most ways any other piece of data can be classified. It can be circled, crossed out, pointed to, enlarged, edited with a pen or otherwise manipulated. It can also be copied and scheduled for every first Monday of the month, faxed to someone else, or displayed. It could even blink or be displayed in red on a color monitor, according to who had entered it, or whether it was on a to-do list and assigned to a date that had passed.

The value of ink—stored and handled by an uncomprehending computer—comes mostly in its interpretation by a human. Take a crude map showing how to reach Grove Court, for example. Or a note to your boss justifying the dinner at the Quilted Giraffe. The note is directed to your boss, even though it is first received by an expert system. The expert system notes that your dinner was too expensive and flags your message as a "reason for exception" because of where it was entered on the form—and forwards the whole thing to your boss, who makes the final decision.

Or take a mock-up of a flag for a new country—one of many in Europe these days. Someday it may be transferred into thousands of design programs, fabric-cutting programs and logos, but for now it's just something to show to a committee; the computer doesn't need to "interpret" it.

Or, finally, it may be a signature: Its meaning would be lost if it were translated. ■

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Who's got the best science?

COMMENTARY BY MICHAEL GIANTURCO

Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

MOST scientific papers produced in the U.S.—over 63% of them—come from just 13 states. Each of these science superstates has been responsible, over the past five years, for more than 50,000 papers, according to data compiled by the Institute for Scientific Information in Philadelphia. The top 7 states were California (with 306,000 papers), New York, Massachusetts, Texas, Maryland, Pennsylvania and Illinois. From Illinois came about 115,000 papers, and the remaining 6 states published fewer than 100,000 papers each.

Such large numbers—science by the bale, as it were—provide intriguing advertising copy for state development agencies and chambers of commerce in the 13 big science states. But the information is too coarse-grained to be of much use to investors, venture capitalists, regional economists, developers or other businesses users.

It is much more helpful to look at the scientific profile associated with individual zip codes. The idea is to identify, however imperfectly, places where excellent scientists work. Such a table is presented here. The 12 best zips in American science are ranked. Along with each zip code are noted one or more corporations or research institutions that account for the research citations.

For a company or institution to turn up in this ranking, it is not enough to simply publish scientific papers in bulk quantities. To qualify, the papers must report findings important enough to have been widely noted—that is, formally cited many times, in other scientific papers written by other scientists. Citations of scientific papers are compiled in the annual *Citation Index,* which is prepared and published by ISI.

By dividing the number of papers published by a given lab into the number of times its papers are cited by outside scientists, analysts can gain a feel for how useful or significant that laboratory's papers might be, at least in the view of its peers. (Scientists may or may not agree with a paper, but the fact that they cite it in their own papers signals they are paying attention.) This ratio of citations to papers, called the "citation impact," can also be used to evaluate the scientific output of individual scientists, of universities, companies, states and—for our purposes—zip codes. Citation impact was used by David Pendlebury of ISI to identify the "hottest" zip codes in America for scientific visibility.

Some caveats: First, some superb science goes unheralded and uncited. It happens in every generation. Citations show only what is being vigorously discussed currently, that is, what is scientifically fashionable. Second, biomedical and biotechnology research tends to draw more citations than papers in other fields. For investors, this could be useful, but note that the rankings inherently favor biomedical over physical science. For a ranking of biotechnology companies by citation impact, see my Dec. 10, 1990 FORBES column.

The ranking is just a place to begin, not a bottom-line stock analysis, so there are no stock recommendations to be extracted. Note, however, the rising importance of the Swiss company, Hoffmann-LaRoche, in American science. Genentech and a significant asset created by Cetus (the polymerase chain reaction that is used to multiply specks of DNA into measurable quantities) have both been sold to Hoffmann-LaRoche. Both companies, along with Hoffmann-LaRoche itself, are ranked very high on this list. Note also the increased scientific strength of the already impressive Chiron Corp., which has purchased the rest of the assets of Cetus. ■

The "hottest" scientific papers published in the U.S. since 1986 originated in these zip codes.

The 12 best addresses in American science

Zip code	Citations per paper	Community or locale	Institution or company
02142	24.6	Cambridge, MA	Whitehead Institute
11724	22.0	Long Island, NY	Cold Spring Harbor
94080	18.9	So San Francisco	Genentech Inc
94608	18.3	Emeryville, CA	Cetus Corp; Chiron Corp
			DNA Plant Technology
92138	13.9	La Jolla, CA	Salk Institute
94043	12.6	Mt View, CA	California Biotechnology
			Polyatom Research Institute
			Lightwave Electric
80206	11.3	Denver, CO	Natl Jewish Ctr Immunology
98101	11.0	Seattle, WA	Immunex Corp
92037	10.1	La Jolla, CA	Scripps Clinic
			La Jolla Cancer Research Fdn
20850	9.7	Rockville, MD	U of Maryland Biotech Ctr
			Biotech Research Labs
			Otsuka American Pharm
20892	9.7	Bethesda, MD	National Institutes of Health
07110	9.6	Nutley, NJ	Hoffmann-LaRoche

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Discounted fashions in the City of Light? Mais oui. But don't look for them on the Faubourg Saint-Honoré.

Attention, Paris shoppers!

By Richard C. Morais

THE INTREPID American businessman, in Paris and with an afternoon free, emerges from a taxicab in the city's unfashionable 3rd arrondissement, a 20-minute cab ride from the George V. Bent on replacing his fading wardrobe with some smart suits of French design, he looks for number 114, rue de Turenne. But at the designated spot he sees only a piece of paper tacked to a wall. It reads in French: Store. Back of courtyard.

Perplexed, and perhaps a little nervous, he ventures through a dusty courtyard and enters an expansive two-story warehouse, half expecting a burly workman to rudely tell him to get lost.

Instead, he enters *Bidermann*—a low-rent but very well stocked discount clothing emporium. Rows of racks groan under the weight of suits bearing such marques as Yves Saint Laurent, Courrèges, Kenzo, Daniel Hechter and Daniel Cremieux.

After a salesperson (some speak English) guides him to suits in his size, the customer checks out the prices and grins. They are about half what he'd pay in the expensive boutiques clustered around the Faubourg Saint-Honoré on the Right Bank, or the Boulevard Saint Germain on the Left. The prices are roughly comparable to discount stores in the U.S.; the quality, however, is often a cut above.

Flipping through the garments, the shopper finds a winter-weight, dark-brown wool suit from Yves Saint Laurent at $350; a charcoal-gray, elegant wool-blend suit—designer unknown since the label has been cut out—for $305. Blazers run from a Daniel Cremieux wool ($101) to a Kenzo linen ($230). The best find, however, is a gray-blue, pure silk Kenzo suit for $617, normally $1,200. Nothing wrong with these suits; they simply didn't move off the rack in season.

Bidermann is only one of about two dozen Parisian discount clothing stores featuring designer labels. Ma-

Mendès, the discount outlet for women's fashions by Yves Saint Laurent
The store is not easy to find, but the bargains are.

jor credit cards are accepted, and alterations can be done in as little as three days.

Some, like Bidermann, specialize in menswear, selling everything from socks to suits. Others stock mainly women's wear. A few specialize in children's clothing.

For foreigners, the best source of information on the discounters is *Paris Pas Cher* (currently between printings and hard to find) or the widely available *GaultMillau* guide. Hidden in the 70-odd-page section of *GaultMillau*'s recommended places to shop for fashions are little boxes highlighting stores with *soldes permanents*—literally, permanent sales. The book lists some 15 of these women's designer discount stores; 6 for men; 4 for children.

Herewith a rundown of the most popular.

For men, *Stock Austerlitz* at 16 Boulevard de l'Hôpital in the 5th arrondissement, is the Daniel Hechter discount outlet. The summer line arrives in August, and the winter line in February. (Remember, merchandise doesn't show up in the discounters until it has had an opportunity to move at full price during the appropriate season.) Some recent offerings: a gray silk blazer reduced from $506 to $231, and a navy blue cashmere-and-wool blazer at $181. Suits start at $140.

Another popular men's discounter, with everything from Christian Dior to Guy Laroche, is *Club des Dix,* at 4 rue Marbeuf (8th).

For women's wear, Yves Saint Laurent's official outlet is *Mendès,* at 65 rue Montmartre (1st). It's easy to miss because there is no sign, but pass through the entranceway and there is a main and first floor usually crowded with women trying on garments. Downstairs is a younger line, upstairs the more expensive Rive Gauche selections—from beaded cocktail dresses to heavy winter overcoats with low waists. A chic Parisian in the know says Mendès is one of the best discount stores, but very hit-or-miss. Fresh stock arrives in January and June/July.

A good place for an older woman is the Lanvin outlet, *Solde Trois,* at 3 rue de Vienne (8th). It's small but well stocked. A pleated peach evening dress was recently reduced to $323 from $842; a handsome, Chanel-like collarless jacket and skirt was slashed to $430 from $930; a heavy wool suit, vanilla with blue trim, was just $373, down from $1,202. Plenty of elegant accessories at Solde Trois, too, from purses ($40 and up) to silk scarves ($25 and up).

Bidermann, one of the discount stores in Paris specializing in menswear

Fashions from French designers at half price.

A few doors down is Lanvin's men's outlet. Cashmere jackets in a variety of colors run $390.

Not listed in the *GaultMillau,* but a great discount store for shoppers interested in lesser-known French designers, is *Stock Griffes,* 17 rue Vieille-du-Temple in the *quartier* Marais (4th), the Soho of Paris. Bargains include crepe skirts ($48), rust-colored jackets with hoods ($80), jersey jump suits ($65).

Just across the street is *A La Bonne Renommée,* at No. 26. It is not a discount store, but its specialties include heavy silk-and-cotton women's jackets and suits enriched with patchwork. Prices range from $350 to $700, and there are twice-yearly sales.

Perhaps the most intriguing shop is *Azzedine Alaïa.* Alaïa is the hottest, most exclusive underground designer in Paris today, best known for his sexy, skintight dresses in stretch jersey-like material.

Alaïa's discount shop is in the apartment building at 60 rue de Bellechasse (7th). The building is past a nasty, Gitane-smoke-filled bistro and easy to miss. No sign, but once through the first iron-and-glass door, a little name tag on a bell announces the Alaïa atelier. Visitors climb a winding wooden staircase and enter cramped premises presided over by Azzedine's sister, Fida, known throughout Paris for brutally cutting down to size pretentious customers.

The bargains are relative; even at a 50% discount, irresistible little Alaïa numbers—in ocher, rust, cold gray and muted purples—fetch $500.

Some tips on shopping at Paris discount houses:

- The shopper who knows what he or she wants fares best. You won't get a lot of sales help, and the best bargains have to be ferreted out.
- French designers predominate. Don't expect to find Giorgio Armani or Ralph Lauren.
- Forget the notion that French-cut suits fit only thin Europeans. Pierre Cardin's cigarette silhouette of the late 1960s and 1970s is long gone. Today's European designs accommodate even heavyset Americans. (Note: It helps to know what your comparable European size is, but sales attendants will help you out if you're not sure.)
- Plan to take your purchases with you. That way it's easier to get refunds on France's 18.6% value-added tax.

Happy discount shopping.

A lover of old bicycles watched prices rocket beyond his means. Until he turned his hobby into a business.

High wheeler

By Christie Brown

ROBERT TREPANIER owns Harry's Radiator, an auto repair shop in Rosemead, Calif. But his true love isn't cars, it's bicycles. His collection of over 200 old bicycles, most built before 1910, is one of the finest in the country.

Trepanier's bikes include tandems (bicycles built for two or more), side-by-side companion bikes (once called courting bikes, with common axles), hickory and brass collapsible bikes (once used by traveling salesmen), oversize tricycles for ladies, dating from around 1870, and brightly colored penny farthings. Also known as high wheelers, the penny farthings have giant front wheels and tiny rear wheels. Though awkward in appearance and dangerous to ride, high wheelers were popular racing bikes from 1880 to 1905.

To house his splendid collection Trepanier added a 10,000-square-foot extension to his small house in Alhambra. Bikes hang from the ceiling, adorn the walls and crowd the floor. But this is no museum. Trepanier's bikes are ridden for profit and for fun. He rents out his bikes for special events, such as the Tournament of Roses parade; for advertising shoots, such as Virginia Slims; for movies like *Hello, Dolly*; for television shows, including *Little House on the Prairie*; and even for Broadway musicals, such as *The Best Little Whorehouse in Texas*.

The rent usually includes a rider—sometimes Trepanier, sometimes an employee or friend—which is a good thing, because these old bicycles can be difficult to master. Take Trepanier's Bell Mobile, a small children's bike, made around 1900. The Bell

Photo: Seltzer/Hall

Robert Trepanier and antique bikes **To help afford his hobby, he made a business out of it.**

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Mobile isn't ridden like conventional bikes, but propelled by a pumping motion. The pedals and handlebars go back and forth while the seat goes up and down. It nearly unseated Johnny Carson when Trepanier appeared with it on the *Tonight Show* in 1973. Mario Andretti bit the dust after riding 30 feet on one of Trepanier's high wheelers at the opening of the Ontario Speedway in 1970. Andretti didn't get hurt, but the big bike wheel folded in two. Trepanier's radiator shop comes in handy for bike repairs.

Photographs by Philip Salkowitz

Trepanier (center) with family and friends
He wanted to join the parade.

Trepanier estimates his bicycle collection is worth over $200,000, far more than what he paid for it over the years. The appreciation is comforting, but like all true collectors, Trepanier has mixed feelings about it—rising prices make it harder to make new acquisitions.

The most valuable bike he owns, for example, is an 1886 tandem tricycle, which takes center stage in his living room. Whereas Trepanier bought it for $425 around 1960, he says an identical bike sold two years ago for $27,000 at the annual Hershey, Pa. swap meet. (The Hershey meet, a must event for serious collectors, takes place in early October.) The most Trepanier has ever paid was $7,200, last year, for a wooden bike, circa 1890.

Tandem tricycle, circa 1886
Bought for $425, now worth $27,000.

Trepanier, who's now 51, says his passion for old bikes began when he was 12. He remembers watching a parade and longing to join in. "I figured I could be in one if I had an old bike," he recalls.

Saving up money earned from working after school, Trepanier managed to scrape up $65 by the time he was 14 to buy his first penny farthing bike. He still has it and reckons it is now worth about $2,500. One month and three broken ribs later, Trepanier had mastered the bike and proudly pedaled it in every parade he could find. Several years later he spent $500 for 32 old bikes he found through a swap meet, and a lifelong hobby and avocation took root.

By 1973, however, old bikes were often costing Trepanier over $500 each. "It was just a hobby, but after paying storage and insurance, I had to do something to make them earn their keep," he says.

That same year an executive of a shopping center association provided the solution. He saw Trepanier riding in a parade and approached him with the idea of a traveling show of old bikes, to play at malls around the country. Trepanier promptly formed his own company for the bikes, High Wheelers, Inc.

For the next seven years, Trepanier left his radiator repair business in the hands of a manager and spent the three summer months putting on bike shows at malls. Along with Trepanier went his parents, wife, three preteenage kids and several crew members, all of whom traveled in a caravan of motor homes, trucks and vans. The Trepaniers would transform a mall for a weekend into a scene reminiscent of *The Music Man*, displaying up to 50 romantic old bikes. A tape recording of the bikes' histories was played through a mannequin, dolled up in period clothes.

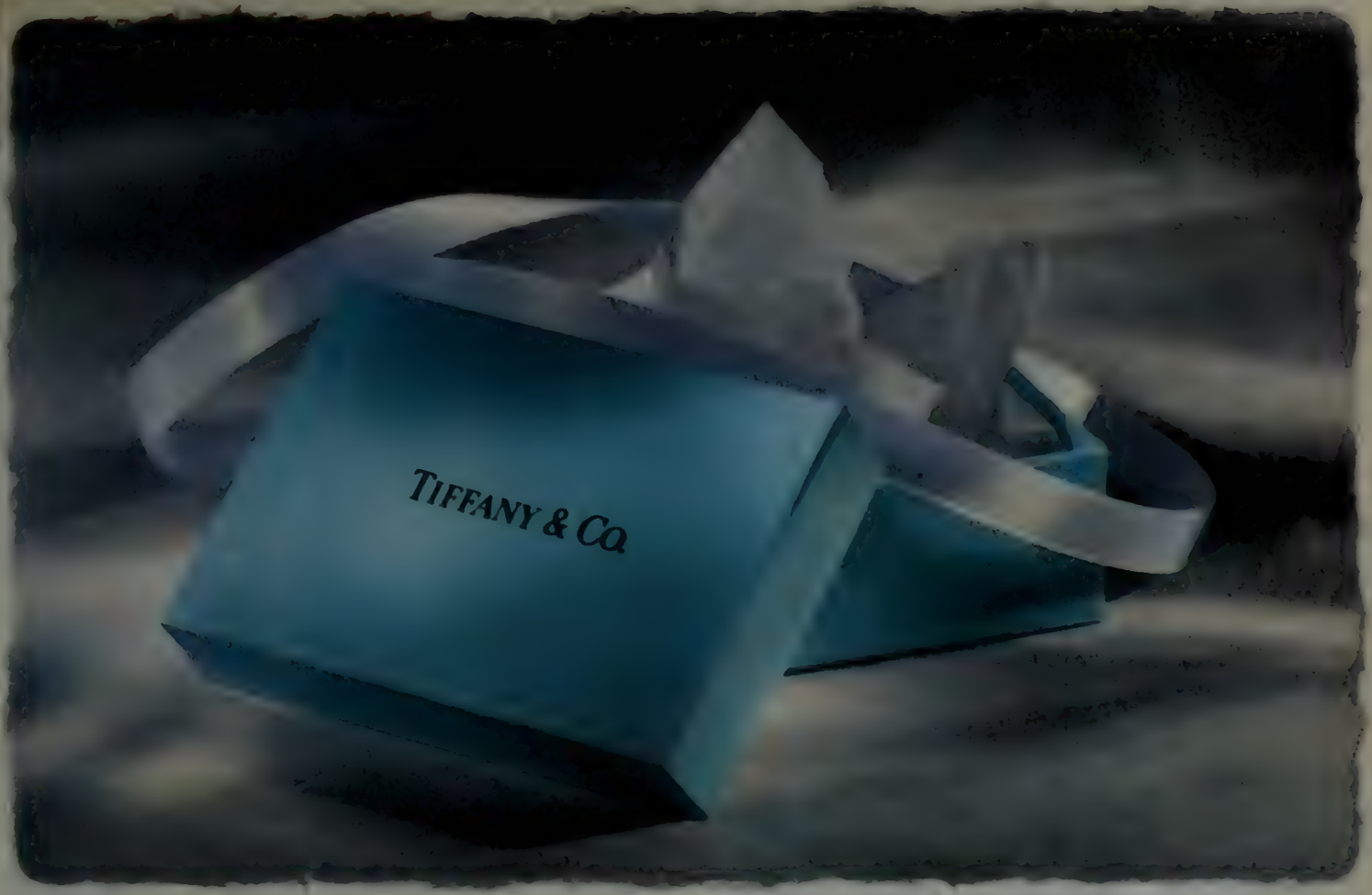
"It was like old vaudeville, a summer vacation no money could buy," recalls Trepanier. The family put on an average of 15 shows each summer, and charged up to $4,500 per event. During the rest of the year they performed at a few events near home, such as the Tournament of Roses and the Disneyland Easter parades.

The summer tours ended in 1980, when Trepanier's teenage kids acquired other interests. But the bikes kept earning income as Trepanier rented them out for use in movies, shows and ads, at $175 per day for a bike and rider.

By 1986 Trepanier's collection numbered about 340 bikes. But when he got divorced his wife got half the collection. Fortunately, his second wife liked old bikes, too, and Trepanier resumed collecting.

Most of the bikes he buys or swaps come from fellow collectors contacted through the League of American Wheelmen, based in Baltimore (it publishes a magazine, *Bicycle USA*). Trepanier also finds bikes through the monthly *Hemmings Motor News*.

The income from Harry's Radiator shop is still what feeds the family, but High Wheelers, Inc. keeps the collection going. Over 30 bikes recently have been rented to three movies in production—*Hook* by TriStar, *Of Mice and Men* by MGM, and *Bram Stoker's Dracula* by Columbia. Last year Trepanier's total income from the collection was about $22,000—no fortune, but enough to buy a few more antique bicycles. ■



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TIFFANY & CO.

Programs for gifted students are under fire for putting too much pressure on the kids. Regular schools could do with some of this pressure.

Spare the prod, spoil the child

By Dyan Machan

DOES LEARNING HOW to cope with pressure at an early age necessarily put you on the track to being a better manager or scientist?

Educators at the privately funded Johns Hopkins Center for Talented Youth think so. Their thesis is that the best students often go unchallenged in the classroom, can't move at their own pace and are ultimately frustrated and turned off by the educational process. Their solution: Push kids as hard as you can, as early as you can.

Underchallenging the best and brightest, they argue, will short-change this country of future leaders. Lighting fires under the talented is at least as important as providing remedial programs for the less gifted, and probably more so. Along with recently publicized falling test scores among high school students, William Durden, the Johns Hopkins Center director, cites two other grim facts: Japan has passed the U.S. in the number of patents per year, and, according to the International Association for the Evaluation of Educational Achievement, top U.S. students rank at the bottom in math and science among developed nations.

On the other side are those who say programs for the gifted are elitist and needlessly stressful to impressionable young minds. And to save money, Connecticut, New York and California are cutting back on these programs. John Katzman, founder of Princeton Review, a firm that prepares kids to take aptitude tests, says some gifted programs are great. But he warns parents: "It's not worth making your kids crazy about."

The Hopkins program is one of the largest and oldest of more than 35 centers nationwide that offer gifted kids from ages 11 to 17 a chance to take advanced courses during summer and after school. How do you define "gifted"? Even the 11-year-olds in the program must have at least 930 out of a possible 1600 combined math and verbal score on the Scholastic Aptitude Test. The national average is 896 for college-bound seniors.

"Stress is not a dirty word," says

The students top, left to right: **Jennifer Nam, Matthew Keeler, Raymond Han,** bottom, left to right: **Lindsey Stowe-Berns, Brigitta Schumacher, Connie Chuang, Justin Walsh, Beth Jzyk.**

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Durden. "Stress and competition are important for educational advancement. The American school system has gone out of its way to eliminate every form of academic competition. Some schools shy away from using standardized tests for their brightest students for fear the comparison may harm the students' self-esteem."

How tough is the Johns Hopkins program? A FORBES reporter visited a program run by the Johns Hopkins Center on the Skidmore College campus—one of six colleges where CTY offers classes. This summer over 500 students attended the Skidmore three-week summer sessions, where

Pete Souza

Johns Hopkins' William Durden
"Stress is not a dirty word."

they took high school- and college-level courses in subjects like math, history and writing.

At Skidmore, the first thing one notices is that boys and girls are about evenly divided, with a heavy representation of Asian teenagers but few blacks or Hispanics. Second, these kids, apart from their intelligence, are otherwise normal. So normal that many seem a bit embarrassed to be there; they are often unwilling to tell their friends back home they attend "nerd camp." Matthew Keeler, 15, a sophomore at Ridgefield High School, in Ridgefield, Conn., says his friends just wouldn't understand the appeal of spending five hours a day in classroom lectures and at least two more hours each evening studying under strict supervision.

Keeler, who concedes his parents bribed him with a new leather jacket to take the Scholastic Aptitude Test at 13 instead of the normal 17, has attended the courses for the last three summers. Despite his slight embarrassment at being there, he's unquestionably happy he is: "Here you can have an intelligent conversation."

Stress? It's there. Take Jennifer Nam, a quiet, rule-abiding 15-year-old. The school's rule is that students' lights are out at 10:15 p.m., but Nam, a sophomore at Watchung Hills Regional High School in New Jersey, breaks the rule. Enrolled in European history, Nam, whose parents came from Korea, says, "I was so lost. Everyone knows what's going on but me." To keep up, she sometimes got up at 5:30 a.m. and stayed up to 11:30 p.m. So how does the overworked, overwhelmed Nam feel about the demanding program? "I love it."

She's not alone in having to stay on her toes. Here 11-to-17-year-olds take a full year of high school chemistry, for instance, in 15 days.

Yes, there's plenty of stress. In some classes, competition means self-esteem is actively bashed. In a writing course, for example, eight students and a teacher form a semicircle around a 14-year-old who looks as if she's ready to cry. Her classmates have each read her essay, and each gets a crack at ripping it apart. The final blow comes from the teacher, Philip Boshoff: "Your observations are insightful, but your writing sounds stupid." The 14-year-old bites her lip, looks down but doesn't cry.

Boshoff explains why he was so tough on the girl: These students are so accustomed to getting A's and pats on the back for everything they turn in that they no longer feel challenged in regular schools. "They generally thank me for the constructive criticism they never had," Boshoff says.

Connie Chuang, 15, a sophomore at Dwight Englewood, in Englewood, N.J., says she wishes she could study math all day long. What she hated was having to break for the activities like volleyball or choir. Says Chuang, "Math is awesome."

What many of the students seem to dread most is going back to their regular high schools, where they'll probably be intellectually undernourished. Says Keeler: "That's like giving a weight lifter 10-pound weights to work out."

These kids are saying something important: Spare the prod, spoil the child. ■

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Privatizing Latin America

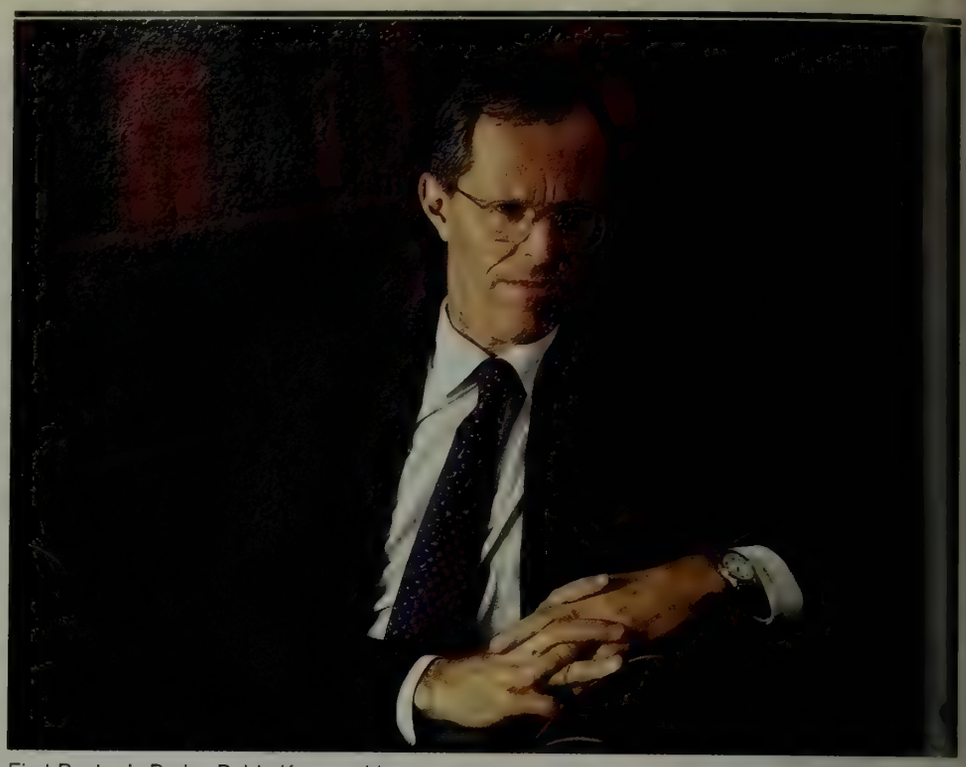
As fast as Latin American countries decide to privatize their state-owned companies, Pedro-Pablo Kuczynski finds buyers for them. Kuczynski (it's koo-zin-ski), who is chairman of First Boston International, has recently helped sell the national airlines of Venezuela and Argentina. By year-end, he will have helped the Mexican government sell nine banks, with another nine to be sold next year. On the privatization runway are Bolivia's national airline, a state-owned steelmaker in Brazil and the petrochemical plants owned by Argentina's defense ministry. First Boston is also bidding to underwrite the public offering of Televisa, the private Mexican media conglomerate, later this year. The firm will also underwrite the closed-end Argentina Fund this month.

Under Kuczynski, First Boston has managed more than $7 billion in Latin American privatizations, mergers and acquisitions and debt and equity offerings this year. That probably means at least $50 million in fees for the firm, and a hefty reduction in Latin America's foreign debt. The airline sales, for example, earned Venezuela $145 million in cash and cut its foreign debt by about $1 billion; Argentina got $260 million in cash and retired $1.6 billion of debt.

With some $400 billion in debt oustanding, the region isn't out of the financial woods. But Kuczynski, 53, a former banking and mining official in the Peruvian government, thinks things are finally moving in the right direction.

"Before the [1982] debt crisis, the U.S. was selling Latin America $50 billion worth of goods a year," says Kuczynski. "Now it's around $60 billion. In real terms, that means there's been a big drop." If privatizations can help restore Latin America's buying power, both halves of the hemisphere should prosper together.

"Latin America," says Kuczynski, "could become the tail that wags the dog" of North America's economic health. –Joel Millman



First Boston's Pedro-Pablo Kuczynski
"Latin America could become the tail that wags the dog."

Paladin with calculator

Bankers brace themselves for bad news when debtors show up with Stan Ross in tow. As the managing partner of Kenneth Leventhal & Co., Ross, 55, has made the Los Angeles-based accounting firm the biggest force in real estate restructurings. Among the firm's clients: New York developers Peter Kalikow and Donald Trump, Boston's Harold Brown, and Cabot, Cabot & Forbes, owned in part by Marshall Field V.

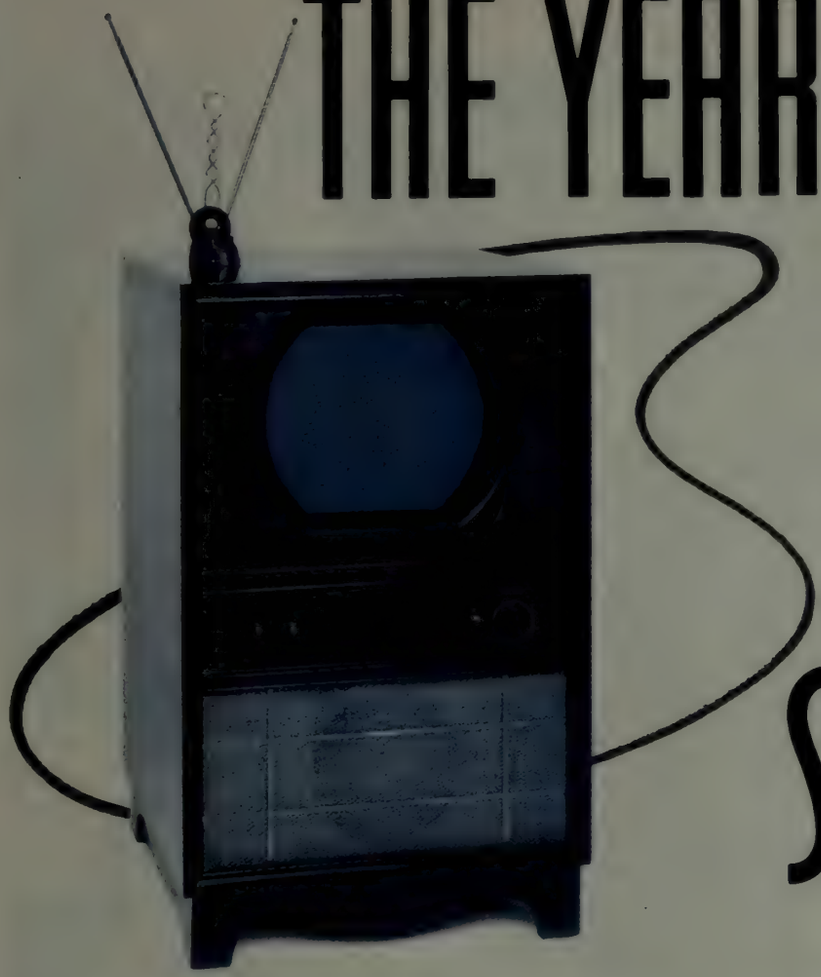
Each restructuring client pays Ross' firm about $60,000 per month for help in getting its books in order and then working out new terms with lenders. The lenders need a hand, too. Few banks know exactly how the properties on which they have lent money are performing, and they know even less about the other real estate that may cross-collateralize the loans they hold.

That's where Ross comes in. To get the restructuring talks going, he prepares a property-by-property review, a four-to-six-month project that culminates in the "information book," a highly detailed analysis of the debtor's portfolio that both sides use to negotiate the workout. How does Ross describe his negotiating tactics? "When my client complains about how tough the banks were and the banks complain about what they left on the table, I know the negotiation was successful."

Real estate negotiator Stan Ross
Helping Trump and others work out.

Some are less successful than [illegible]ers. In mid-August Peter Kalik[illegible] filed for personal bankruptcy w[illegible]n European-American Bank tried [illegible] squeeze out $1 million more in p[illegible]ment on a loan that was cross-colla[illegible]ized by Kalikow's other holdi[illegible]. Ross says European-American's [illegible] flexible attitude angered Kaliko[illegible]'s other creditors. "The bankruptcy [illegible]as cost everyone much more than [illegible] million," explains Ross, "and you [illegible]n bet the [other] banks won't forg[illegible] If they do, Ross, a quiet, self-effa[illegible] fellow, will be there to remind th[illegible] –Laura Jer[illegible]

THE YEAR MY FIRM STOPPED SWITCHING INSURANCE COMPANIES



Ours is an age of vanishing loyalties. Partnerships bloom and partnerships perish. Yet the client relationships of one insurance company span decades. Every year–in businesses large, medium and small–it retains nearly 90% of the property/casualty clients it served the year before. □ Why this insurance company, not another? Because for more than 180 years, this insurance company has been recognized as a pillar of financial strength and stability in an otherwise uncertain world. □ ITT Hartford. When you need us most, we're at our best.

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Tin man

STEVEN BEDOWITZ, the slick cofounder of Amre, Inc. (fiscal 1991 revenues, $277 million), is being investigated by the Securities & Exchange Commission and being sued by shareholders for fraud and misrepresentation of financial information.

Bedowitz and a partner founded the Irving, Tex.-based firm in 1980. Under license from Sears, Amre installs vinyl siding and kitchen countertops; it solicits customers with direct mail and television advertising. Amre went public in 1987 at $5.33 a share (adjusted for splits) and hit 14⅞—and a price/earnings ratio of 27—the next year. That valued the little company at about $200 million.

Bedowitz and Robert Levin, president of the siding division, suddenly resigned last January after Amre announced it was being investigated by the SEC. In August Amre revealed that several senior officers had overstated profits for 1987 and 1988, while understating losses for 1989. The stock recently traded at around 6½.

A premonition of trouble at Amre was a 1988 lawsuit against Bedowitz by his former wife, Patricia Winston. Winston claimed in the suit that Bedowitz gave her outdated and incomplete financial information for Amre—then privately held—while the two were settling their 1986 divorce. When Bedowitz took Amre public less than three months later, claimed Winston, his stake was valued at 15 times the amount she had received. (Winston settled for an undisclosed sum in July.)

Under a consulting contract with Amre, Bedowitz still collects a $150,000-a-year fee. He also owns a third of the stock, worth $27.5 million. But some of that wealth could well evaporate. Even Amre's new chairman, Ronald Wagner, who sold a cabinet-making firm to Amre for stock in 1988, is among those seeking reparations from Bedowitz.

–CHRISTOPHER PALMERI

Tough but not hopeless

HARVEY WEINBERG, chairman of Chicago's Hartmarx Corp., the men and women's apparel maker and retailer, has no illusions about what he's up against. "The challenge," he says, "is to overcome shopper apathy in an overstored environment, with rising operating costs in a more competitive marketplace."

Hartmarx makes mostly high-quality men's clothing and sells it, in department stores and its own retail network, under 42 labels, including Hickey-Freeman and Christian Dior. With highly leveraged retailers cutting prices on Hartmarx's goods, the company's own stores—which sell about 15% of its production—have had to mark prices down, too. Last year Hartmarx lost $62 million on $1.3 billion in revenues and is likely to lose $20 million on slightly lower revenues in 1991, figures Deborah Bronston at Prudential Securities.

But the situation is not without hope. Weinberg, 53, has closed some 65 of Hartmarx's underperforming stores (for which the company took a $51 million aftertax charge last year), while upgrading the more profitable ones. Thirty-six more should close by year end. He recently won licenses to make and market some hot European labels, including Karl Lagerfeld, Krizia and Corneliani. As a result, Hartmarx's spring 1992 suit orders are 3% ahead of 1991's.

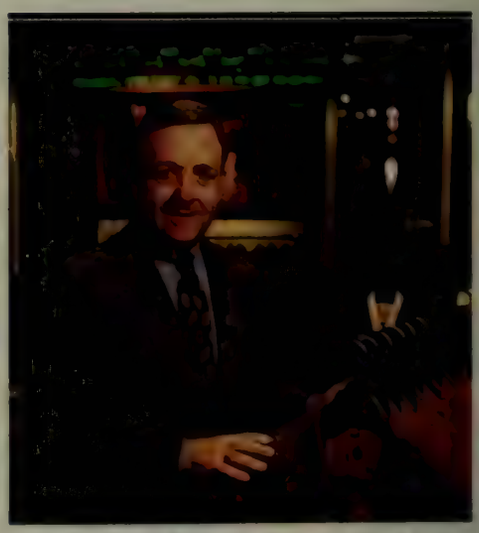
Financially, too, the company is not in bad shape. A stock offering in July raised some $39 million to whittle down debt (to $192 million, against equity of $322 million). But Wall Street is still worried. Hartmarx stock, recently at 8, trades at about 17% of sales and 62% of book value. Weinberg says Hartmarx has "the potential" to earn at least $2 a share—a level it hasn't hit since 1988, when its stock was nearly four times as high. "In fact," he says, "I think we could do better—as long as we have a reasonable environment in which to do business."

–KATHERINE WEISMAN

Dan Bryant

Amre, Inc. cofounder Steven Bedowitz

Did he shaft shareholders and his ex-wife?

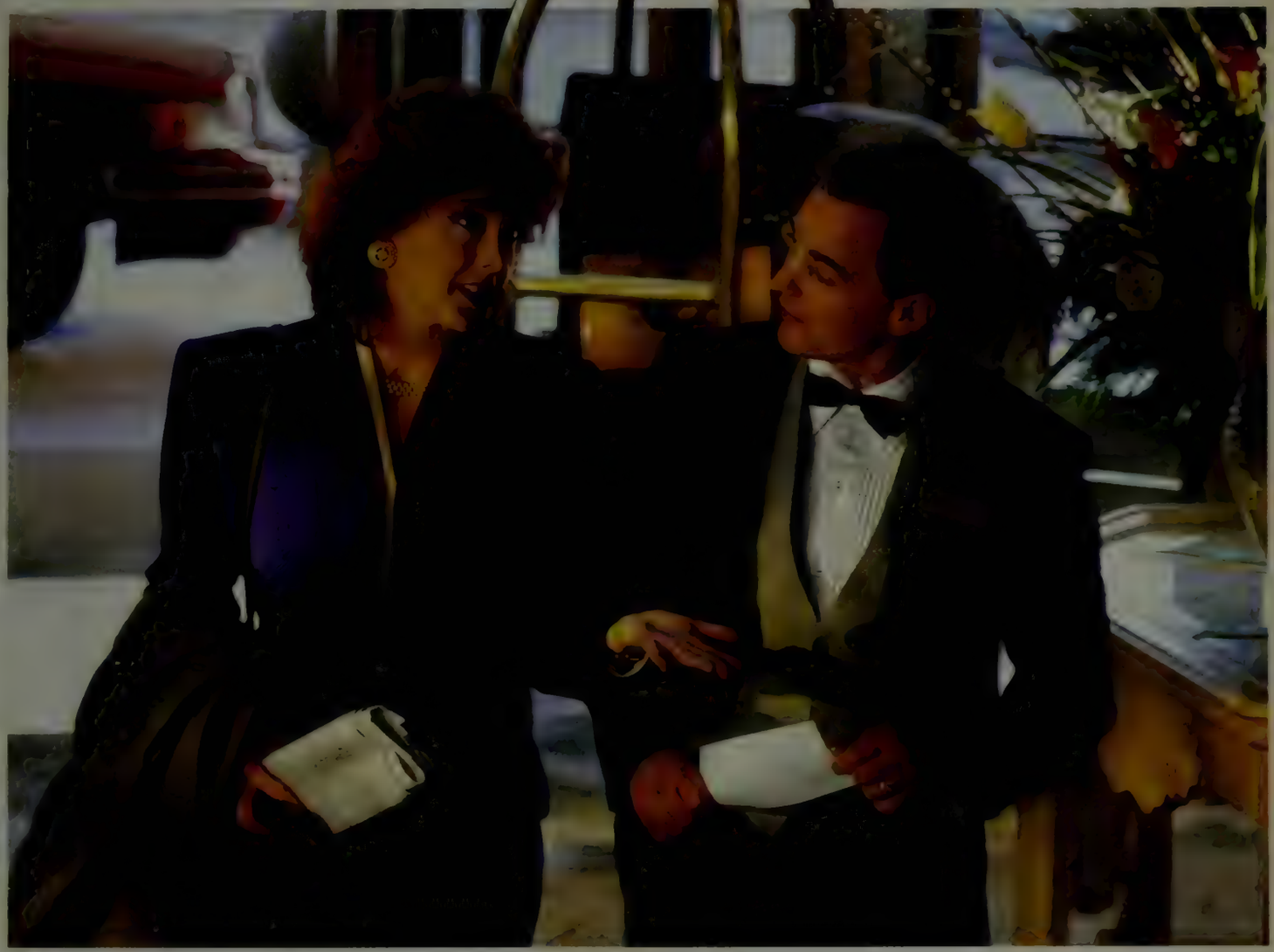


Hartmarx Corp. Chairman Harvey Weinberg

Tailoring a turnaround?

BETH WILLIAMS KNOWS HOW TO RAISE HER STANDARD OF TRAVEL WITHOUT RAISING HER TRAVEL COSTS.

NOW WHERE DO YOU SUPPOSE SHE'D RENT A CAR?



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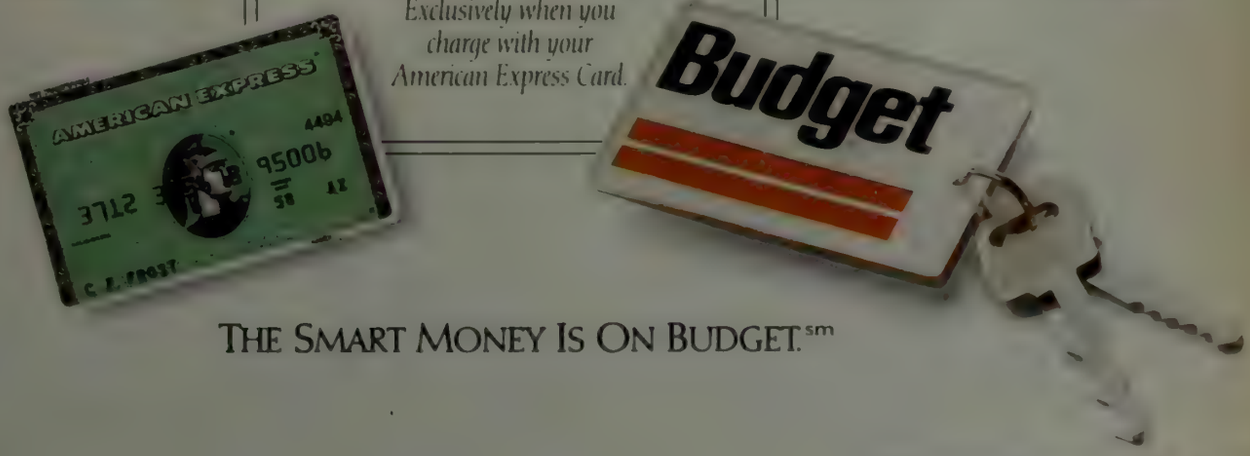

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BY ERIC S. HARDY

The overall market is selling for 23 times trailing earnings. Isn't that rather steep? Or is the market correctly discounting the future?

The Bank Credit Analyst, a Montreal-based economic and financial markets forecasting service, anticipates that U.S. corporate profits, with the help of declining interest rates and low inflation, will rise sharply in 1992. Another service concurs: The Institutional Brokers Estimate System expects that earnings of the S&P 500 will rise 27% in 1992. Says a third source, Prudential Securities market analyst Larry Wachtel: "One major difference between now and the [1987] crash is that interest rates are falling, not rising as they were in October of 1987." Wachtel says the market could go a bit higher, if investors move from low-yielding money funds into stocks. But the biggest question is whether those 1992 earnings forecasts can be trusted.

Special focus

Over the last ten years, bond yields have averaged 2.3 times stock yields (as measured by the Lehman Brothers Government/Corporate bond index and the S&P 500 stock index). In September 1987 this ratio climbed to 3.3, but stock prices crashed in October 1987. Now, with bonds and stocks in a rally, yields on both are falling. The ratio has stabilized around 2.3, near the long-run average. But if inflation returns and bond yields rise again, stocks may take a beating.

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	0.0%	20.7%	-1.8%
Sharpe/Barra Growth index[1]	-0.3	32.4	-2.1
Sharpe/Barra Value index[2]	-0.3	20.9	-1.8
Dow Jones industrials	0.5	20.1	-1.0
S&P 500	-0.4	24.4	-2.3
NYSE	-0.3	24.2	-2.0
Nasdaq	1.1	43.4	-0.7
Amex	-0.2	16.2	-7.1
EAFE[3]	2.0	8.3	-20.4
CRB index[4,5]	1.9	-8.6	-20.4
Gold[5]	0.3	-10.6	-30.7
Yen[5]	-1.0	-2.4	-18.1
Oil[5]	0.2	-37.3	-47.1

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
Vastar	12 5/8	44%	$-0.32	Digital Systems Intl	9 1/4	-45%	$1.17
Network General	13 3/8	41	0.61	Alias Research	12	-37	0.86
Nova Pharmaceutical	7 1/2	36	-0.20	Transco Energy	19 7/8	-27	1.54
Platinum Technology	17 3/8	35	0.23	Atmel	10 3/8	-23	0.90
Liposome	14	33	-0.39	SynOptics Communications	21	-22	1.81

The best and worst performing industry factors[8,9]

Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Tobacco	5.9%	54.3%	Oil service	-3.4%	-1.4%
Leisure, luxury	3.3	36.1	Construction	-3.3	11.3
Life insurance	3.2	18.2	Electronics	-2.9	17.0
Containers	2.4	31.4	Aluminum	-2.8	6.4
Drugs, medicine	2.2	41.1	Paper	-2.3	13.1

Note: Data for period ending 9/19/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of a portfolio of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from Lynch, Jones & Ryan. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. Principal source: Barra, Inc., Berkeley, Calif.

BY GUSTAVO LOMBO

Foreign vs. U.S. markets

Developed markets

Market	Total return[2] 3 months	12 months	P/E
Hong Kong	9%	37%	12
Australia	7	8	13
Denmark	6	1	NM
United Kingdom	5	14	15
United States	2	27	19
Austria	–11	–25	30
Italy	–11	–20	15
Finland	–10	–22	59
Japan	–10	–4	35
New Zealand	–10	–24	8

Emerging markets

	Total return[2] 3 months	12 months	P/E
Region			
Latin America	32%	67%	NA
Asia	–3	–4	NA
Country			
Brazil	56	37	11
Chile	33	127	15
Pakistan	31	51	13
Greece	–19	–45	9
Turkey	–17	–61	18
Indonesia	–16	–42	18

Through August the 1991 total return on the S&P 500 was 22%. In contrast, Morgan Stanley's Capital International Perspective dollar-denominated EAFE index of 1,100 European, Australian, New Zealand and Far Eastern stocks returned only 4%. The strong dollar was part of the reason, but so were some weak overseas markets. Japan, in particular, pulled down the index. Japanese shares have a weight of 27% in the EAFE index, and so far this year the return (in dollars) on Japanese stocks has been only 0.2%.

But other foreign markets have been strong. Since January the Morgan Stanley index for Hong Kong posted a 40% total return. Chris Thompson, managing director of W.I. Carr (America) Ltd., a stock brokerage firm specializing in Asian markets, points out that as a leading exporter of consumer goods made in China, Hong Kong is benefiting from higher output from Chinese factories, many of them in the neocapitalist southern provinces (FORBES, *Aug. 5*). Nevertheless, there remains a great deal of uncertainty about what will happen when communist China takes control of Hong Kong in 1997.

Who's hot

Company/Country	Business	Price	3-month price change	P/E
Schmalbach-Lubeca/Germany	materials	340¾	68%	27
Vard A/Norway	transportation	12⅞	38	10
Printemps AU/France	merchandising	146⅞	36	19
Siebe/UK	multicompany	8⅝	29	9
Showa Shell Sekiyu/Japan	energy	14⅛	26	52

Who's not

Company/Country	Business	Price	3-month price change	P/E
Matsuzakaya/Japan	merchandising	15⅝	–38%	21
Nouvelles Galeries/France	merchandising	97¾	–32	17
Massa/Germany	merchandising	154⅝	–29	40
Nobel Industrier/Sweden	aerospace & tech	7⅛	–29	8
Universale-Bau/Austria	construction	168⅞	–28	43

Cheap foreign stocks

Company/Country	Business	Price	Earnings	P/E
ABN-AMRO Hldgs/Netherlands	banking	20½	$2.76	7
British Gas/UK	utility	4	0.48	8
Tel de Espana/Spain	telecom	9	0.76	12
Daimler-Benz/Germany	automobiles	433½	27.44	16
Canal +/France	broadcast, pub	186	8.38	22

High-yielding foreign stocks

Company/Country	Business	Price	Yield	P/E
Trafalgar House/UK	multicompany	4¼	9.7%	23
Winsor/Hong Kong	textiles, apparel	1¼	8.3	13
Transalta Utilities/Canada	utility	11⅛	7.7	12
Natl Australia Bk/Australia	banking	5⅛	7.3	12
Thyssen/Germany	metals, steel	135⅛	6.6	8

Note: Data for period ending 8/30/91. Selected stocks have a market capitalization of at least $300 million. [1]Shows price return on the EAFE index of European, Australian, New Zealand and Far Eastern stocks converted into U.S. dollars. [2]Performance numbers reflect both local price change and currency fluctuation. Dividends are reinvested after subtracting foreign withholding tax. NA: Not available. NM: Not meaningful. Principal source: Morgan Stanley Capital International Perspective. Emerging markets data provided by International Finance Corporation for period ending 7/31/91.

1991 The Continental Corporation

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THERE WHEN IT COUNTS.

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Latin government debt has come so far in the past five years that you could almost call it investment grade.

Latin bonds

By Eric S. Hardy

ANYONE BUYING Argentinean government bonds a year ago as anything but a rank speculation would probably have been dismissed as a kook. But look at what happened. The dollar-denominated 7.375s of 1999 have been current on interest payments since their issue in August 1987, and their price has climbed from 51 (that is, 51 cents per dollar of face value) to a recent 79.

Latin America is discovering the benefits of capitalism and free enterprise. The Chilean economy, freed of its old feudal and statist restraints, has been growing steadily since 1984. Argentina has reduced its inflation rate from 27% monthly to 2.6% this July. Brazil, Bolivia and Peru, none of them with reputations of fiscal virtue, are now reducing government spending. J.P. Morgan, which recently underwrote a $300 million issue of two-year, U.S.-dollar-denominated Argentinean bonds, even predicts that Argentina will run a budget surplus over the next four quarters. There must have been some believers, because investors accepted a yield of only 11% on the issue. U.S. corporate junk bonds pay more.

"I'm seeing much more interest in Latin American debt, both government and corporate," says Merrill Lynch economist Frank Fernandez, whose firm is creating a performance index for developing country debt.

For yield-hungry investors, many of the issues still look interesting. Be careful: Issues such as those sampled in the table remain very illiquid, at least compared with U.S. Treasury paper. Also, you have to know what you are buying. Note the huge price discrepancy between the two Brazilian issues. The first is the highest-quality bond of that country, a general credit obligation of the Brazilian government, while the second, issued as part of a debt restructuring, is paying only partial interest.

If you want professional management, consider Megy Income Fund, run by Hector Megy, a 38-year-old native of Argentina who now lives in Palm Beach, Fla. His new fund invests mostly in Latin American bonds and is no-load but has a $100,000 minimum and projects a steep 2.4% annual expense ratio. It appears to be the only thing close to a pure-play Latin bond fund, but some international funds, including Templeton Global Income Fund and GT Global Latin America Fund, have around 10% of their assets in Latin debt.

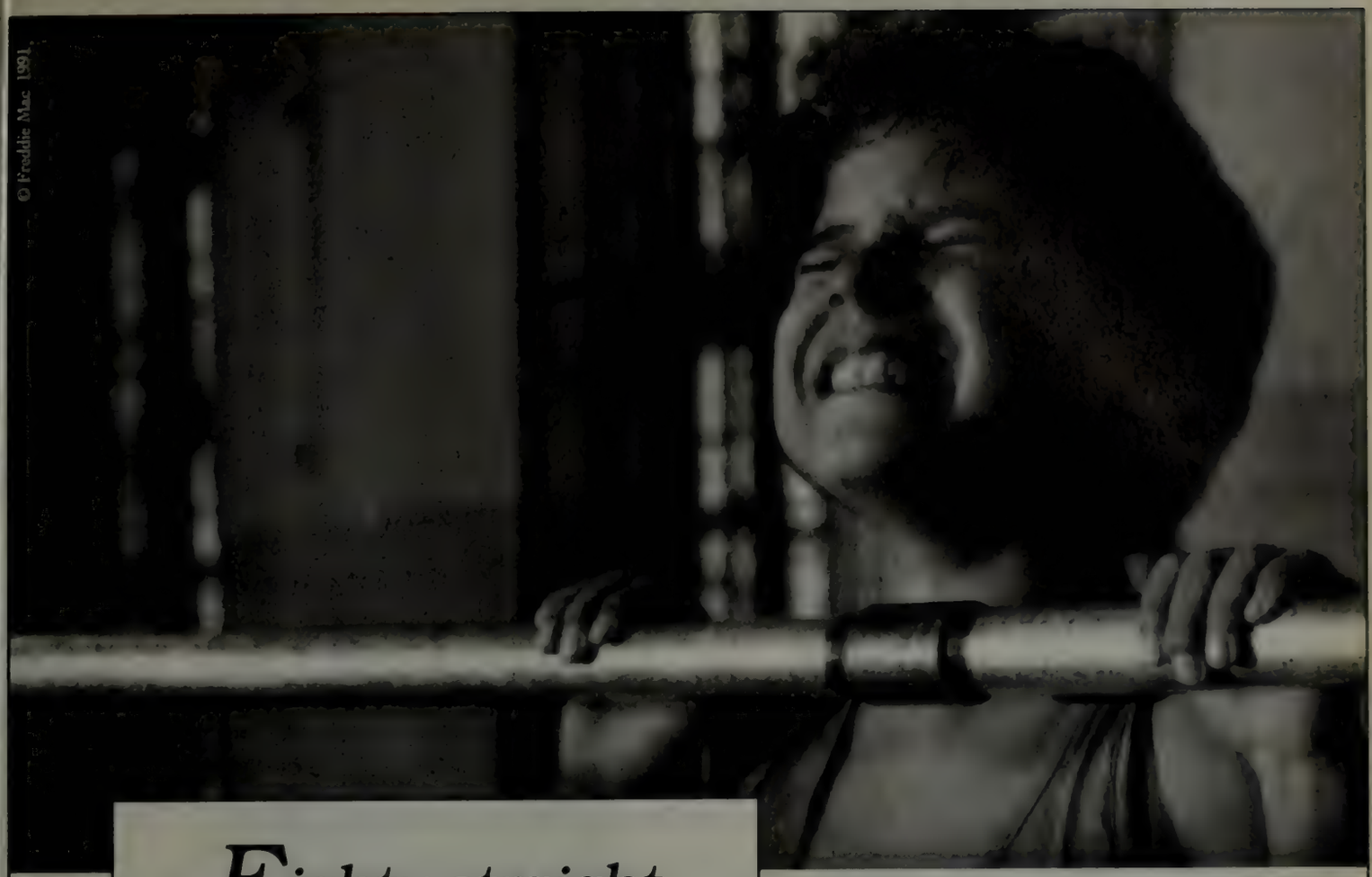
Latin dollar bonds

Country	Moody's rating	Maturity	Coupon	Recent price	12-month high	12-month low	Current yield	Yield to maturity	Amount outstanding ($mil)	Inflation[1]	Economic growth[2]
Argentina	—[3]	10/25/99	7.38	79	79	51	9.3%	12.6%	$500	2,311%	-0.9%
Argentina	—[3]	5/31/97	9.63	38	51	36	NM	NM	425	2,311	-0.9
Brazil	B2	10/15/99	7.31	85	85	66	8.6	10.4	670	2,928	-4.6
Brazil	—[3]	11/30/03	11.13	39	55	33	NM	NM	90	2,928	-4.6
Chile	—[3]	12/31/05	7.31	91	91	77	8.0	10.8	77	26	2.1
Colombia	Ba2	3/31/94	7.63	83	87	66	9.2	9.8	813	29	4.2
Mexico	Ba3	12/31/19	6.25[4]	59	59	42	10.6	12.0	21,000	27	3.9
Peru	—[3]	12/31/07	9.94	13	21	11	NM	NM	300	3,399	-4.3
Uruguay	—[3]	2/18/07	7.38[4]	80	80	70	9.2	10.3	447	113	1.5
Venezuela	Ba2	3/31/20	6.75[4]	68	70	47	9.9	11.8	6,700	41	4.4
United States	Aaa[5]	8/15/20	8.75	109	110	102	8.0	7.9	21,419	5.4	1.0

[1]Price level increase, December 1989 to December 1990. [2]Percent change in gross domestic product, 1990, except Uruguay, which is for 1989. [3]Not rated. [4]Principal guaranteed by zero coupon U.S. Treasury obligations. [5]U.S. government debt is not rated but would receive the highest (Aaa) credit rating if it were. NM: Not meaningful; bond is either nonperforming or pays only partial interest.

Sources: International Monetary Fund; Merrill Lynch Capital Markets; Megy Investment Advisors; Moody's Investor Services.

Countries south of the border don't quite rank with the U.S. in credit quality, but investors can at least insulate themselves from currency risk by sticking to bonds payable in U.S. dollars.



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Let others trade in and out. Mark Byl beats the market by buying and holding.

North by northwest

By Mary Beth Grover

WHEN MARK BYL was 27 his boss gave him an interesting assignment: create an index of Northwest firms. The stocks were to be selected for having the best returns on equity, debt/equity ratios and free cash flows in the region. Having selected the stocks, he was to put together a fund to mirror the index. His employer, Composite Research & Management Co., a Seattle-based money manager, would then run the fund. It was quite a challenge for a young man whose M.B.A. degree from Arizona State was only two years old.

Byl scored—and big. His Composite Northwest 50 Fund (assets, $93 million) has done very well since it opened its doors to investors in late 1986. Boeing, Microsoft, Nike and Albertson's, a supermarket chain, were among his initial investments. Since the fund opened for business it has averaged a 19% annual return, five points ahead of the S&P 500. Even after paying the fund's maximum 4.5% sales load, investors have done very well.

Luck had something to do with the success—if being in the right stocks in the right place can be called luck. While the nation is in a recession, personal income in the Northwest is still growing faster than inflation. Byl's initial picks were so good he hasn't had to do a lot of switching and trading. Having once decided that a company is good enough to go in the index, Byl is reluctant to take it out, and he mechanically maintains a percentage of the fund in that company equal to the company's share of the total market capitalization of its economic sector. The only company he dumped was Floating Point Systems, a computer maker whose cash flow turned negative.

Besides the financial criteria, Byl monitors a company's management. When Fred Meyer, an operator of hypermarts, brought in a new chief three years ago, Byl visited him within two weeks and was impressed by the executive's deep background in marketing. Byl kept buying Fred Meyer stock. Today he has a 70,000-share position at an average price of 13; the stock is now at 21¾.

Quality Food Centers, a Bellevue, Wash.-based premium-price grocery chain (recent price, 34½), is another one of Byl's best performers. His average cost was 15. Portland-based Louisiana-Pacific Corp., another holding, looks expensive at 41¾, 24 times Wall Street forecasts of 1991 earnings. But Byl expects big gains from the lumber company's new wallboard substitute, called Fiberbond. Fiberbond, which uses recycled newspaper, whereas wallboard uses gypsum, is 60% lighter.

Another winner: Washington Federal Savings & Loan, the state's third-largest thrift, with $2.6 billion in assets. The thrift has increased its dividend 16 times in the past nine years and has returned over 18% on its net worth every year since 1983. Recent price: 37⅛, or 12 times expected 1991 earnings. Its fiscal 1990 ratio of nonperforming loans to total assets was 0.35%, to Citicorp's 6.7%.

Big winners Boeing, Nike, Microsoft and Albertson's represent about 25% of the fund's portfolio. "Microsoft generates tons of cash flow, doesn't have any debt and does 40% returns on shareholders' equity," Byl says. Byl's average cost was 31, adjusted for splits; Microsoft was recently trading at 86¼, or 26 times expected fiscal 1992 earnings.

Not that everything booms in the Northwest. Byl has broken even with investments in Tacoma-based lumber company Weyerhaeuser, and he's off 15% with Wilsonville, Ore.-based Mentor Graphics, a supplier of computer-aided engineering systems (FORBES, *May 16, 1988*). But as long as cash flow remains positive, Byl will hang on.

Byl's basic rule is: Find a good thing, stay on top of it, and don't trade in and out. Through June 30, the fund's turnover was 8%. The average turnover for a mutual fund is more like 85%. Byl's style enables him to go home at 6 p.m., avoid weekend work and have the luxury of not rushing from his Bainbridge Island home to his Seattle office in order to make the stock market's opening in faraway New York. "I think I've made it twice," he confesses.

There's a moral here for investors who are forever trading in and out in response to every bit of news and jiggle in the market: If your portfolio makes sense, don't try fixing it. You'll only make your broker rich.

Northwestern favorites

Company	Recent price	52-week high	52-week low	Earnings per share 1990	Earnings per share 1991 est
Alaska Air Group	22¼	25⅜	13⅞	$0.82	$0.88
Boeing	50	53	38½	4.01	4.49
Louisiana-Pacific	41¾	46¼	20¼	2.46	1.72
Fred Meyer	21¾	23½	10	1.37	1.65
Oregon Steel Mills	26¼	38⅝	16⅛	1.78	2.60
Puget Sound Bancorp	27⅞	28½	13¾	2.61	2.84

Sources: Composite Research & Management Co.; Standard & Poor's; Institutional Brokers Estimate System.

The Composite Northwest 50 Fund has bought into these West Coast firms on account of their excess cash flows.

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U.S. mutual funds have been insulated from foreign competition. That could change, opening up a wealth of new managers to U.S. investors.

Another foreign invasion

By Eric S. Hardy

ONE OF THE best-performing mutual funds during the five years ended June 30 has been the National Mutual Australian Fund, with a compound annual return of 31% to U.S. dollar investors, versus 12% for the Standard & Poor's Index. Sounds good, but you can't easily buy in. This fund, which buys mostly Australian shares, is managed in Britain and quoted in pounds. Since it isn't registered for sale in the U.S., you can't get it without traveling abroad and opening a foreign bank account.

The legal barricade that stands between U.S investors and funds incorporated overseas is the way the Securities & Exchange Commission interprets section 7d, issued under the 1940 Investment Company Act. The law flatly bans mutual funds based outside the U.S. from publicly soliciting business in this country. The law is less clear about whether or not foreign funds can accept unsolicited orders from U.S. investors, but most such funds play it safe by returning American checks.

Things may soon change. The SEC is considering relaxing section 7d and even asking Congress to change the 1940 act's provisions. The lowering of trade barriers in the fund industry would presumably accompany a lowering of foreign barriers to entry by U.S. fund operators. Vanguard, Kemper and T. Rowe Price are among the U.S. fund houses that want to sell their products in Europe. If they do get the chance, they will no doubt face more competition from the likes of National Mutual.

A burst of cross-border competition in funds would be a boon to investors, provided, of course, they don't fall prey to crooks. The last big fraud on fund investors, which took place in the early 1970s, was Bernie Cornfeld's Fund of Funds. The scam was possible precisely because the fund was based overseas, beyond the range of the SEC's oversight. One other stumbling block is tax law, which can make investing in a foreign-based fund a bit messy, says Allan Mostoff, partner at Dechert, Price & Rhoads. If the fund doesn't cater to U.S. investors, you may have a devil of a time figuring out how much foreign tax credit to claim on your tax return.

If you are determined to break down international barriers on your own, begin by opening an overseas bank account. Then draw on this account to purchase fund shares. James Charington, a vice president for London-based Save & Prosper Investment Management, a $6.5 billion mutual fund group, says he suspects some U.S. expatriates (those who reside in the U.S. for less than 90 days a year) invest in overseas funds through checks drawn on foreign financial institutions. His best performer: S&P Southeast Asia Growth Fund, up a compounded average 27% over the past five years.

Where do you get performance data? In many countries, daily net asset values are published in newspapers as they are in the U.S., but it is not always easy to find compilations of total return data. London-based Micropal Ltd. tracks results of 15,000 mutual funds in more than a dozen countries; it publishes numbers in the U.K.'s *Sunday Times*, *Money Week* and *Money Marketing*. Another source, for U.K. investment trusts, is an index published by the Association of Investment Trust Companies.

Christopher Poll, chief executive and a founder of Micropal, is optimistic about the potential for much more border-jumping by fund investors. "Regardless of all we've heard about the globalization of the American securities market, only about 8% of the 3,000 [U.S-based] mutual funds do any serious investing outside the U.S.," he says.

The best funds outside the U.S.

Fund/distributor	Assets ($mil)	Total return 5-year annualized	Total return 1-year	Where headquartered	Area of investment
Colonial Mutual Equity/Colonial Mutual	$67	36.9%	–4.0%	UK	UK
Morgan Grenfell Japan Smaller Cos/Morgan Grenfell	130	35.4	19.2	Channel Islands	Japan
Wardley South East Asia/Wardley	44	30.9	–0.5	Hong Kong	SE Asia
National Mutual Australian/National Mutual	31	30.6	7.5	UK	Australia
Murray South East Asia Exempt/Murray Johnston	20	28.6	–4.0	UK	SE Asia
Schroder Japanese Smaller Cos/Schroder Unit	166	28.3	0.3	UK	Japan
Baring Hong Kong/Baring	93	27.6	9.6	Ireland	Hong Kong
S&P South East Asia Growth/Save & Prosper	166	27.1	–5.3	UK	Hong Kong

Source: Micropal.

Here's a sample of some of the best-performing stock funds offered by overseas distributors. Most invest in the hot stock markets of the Far East and Southeast Asia.

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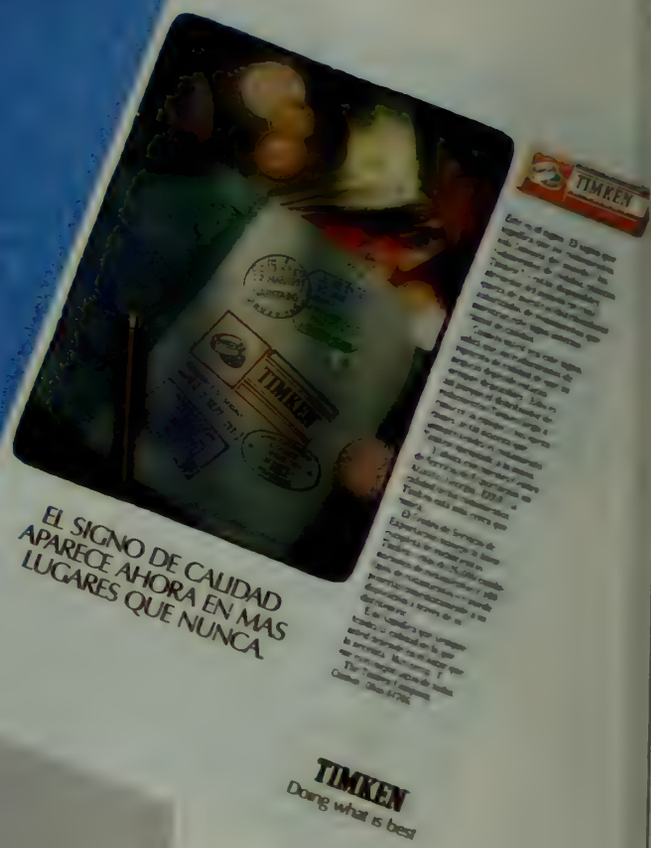

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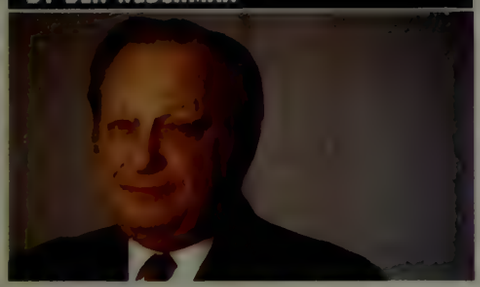
Yields on commercial bank bonds have dropped sharply. Be careful. The risks may well exceed the rewards.

The perils of bank debt

BY BEN WEBERMAN



Ben Weberman is a columnist for FORBES magazine.

THE RUSH OF megabank mergers may be spurring some investors to think that the commercial banking system is on the mend. The temptation is to start buying debentures or notes of bank holding companies and banks.

Resist it. Any buying has to be very selective. The hard times aren't over yet: There's still a sea of bad commercial loans to clear. Real estate loans remain a problem. Many banks are still overstaffed, and though personnel reduction is a high priority, the task is going to be difficult.

The lure, of course, is that yields over like-maturity Treasurys remain very attractive for bank debt. As an example, Bank of Boston 10.30% B3/BB-plus subordinated capital notes due 2000 trade at 89 to yield 12.35%, or 480 basis points over the Treasury yield curve.

A higher-quality issue, Republic New York Corp.'s Aa3/AA-minus 8⅜s senior debt due 2007, is trading at 98¾s to yield 8.52%, with a narrow spread off Treasurys. In between are money center issues like Citicorp's 9¾s, Baa3/A-rated subordinated capital notes due 1999, which are quoted at par to yield 9.75%, or 220 basis points over Treasurys.

The point is that attractive as these yields seem, they're less generous than they were a year ago. Last September, for example, spreads over Treasurys were as much as 750 basis points. That offered more than ample compensation for the risks involved. But no more.

William Downes, a vice president and fixed-income analyst at Keefe, Bruyette & Woods, doesn't have much on his buy list. But he does suggest focusing on banks that "make money on the liability side of the balance sheet." By this he means those banks that have access to low-cost deposits and in general have low expenses. This is a somewhat different analysis from the more traditional, return-on-assets way of examining how much a bank can earn on its loans and investments.

Using this yardstick, Downes likes New Jersey-based First Fidelity Bancorp., which now has the benefit of an equity infusion from Banco Santander of Madrid, arranged about six months ago. Seven-year subordinated debt of First Fidelity is available on the market at a spread of about 170 basis points over Treasury issues. The bank's 9⅝s Baa3/BB-plus subordinated notes due 8/15/99 are priced at 103 to yield 9.10%.

How about the big mergers? Downes thinks the Chemical-Manufacturers Hanover and the BankAmerica-Security Pacific combinations offer the best opportunities to bring widespread savings on overheads and the consolidation of low-margin operations.

Downes notes that a year ago the spread of Chemical Bank's holding company subordinated debt against Treasurys was as wide as 600 basis points, as many investors questioned the takeover of Texas Commerce. Now that deal shows every sign of working out, and he thinks the Manufacturers Hanover merger will result in an enhanced credit quality of the combined company. He figures this could bring the bank's borrowing costs down by as much as 25 to 50 basis points.

If you must buy, Downes recommends Chemical Banking Corp.'s 10⅜s subordinated notes of 1999, which trade at 106, yielding 9.25%, or 165 basis points over the seven-year Treasury.

In another merger, some analysts suggest that while relief from California's economic problems may still be some time away, the aggregate of problem loans for the combined BankAmerica and Security Pacific will be relatively light.

Beyond First Fidelity and Chemical, Downes does not have strong recommendations for the general investor. For the speculative sort, there is, for example, Shawmut National. Downes sees Shawmut as a survivor, with or without the merger with Bank of Boston. Shawmut's subsidiary, Hartford National Corp., has 8¼ senior notes of 1993, which trade at 90 and yield 13.8%; the spread over like two-year Treasurys is 750 basis points.

Avoid banking companies with overly large portfolios of commercial real estate loans, warns Downes.

Investors may also consider debt of First Interstate of California and First Chicago attractive. First Interstate in particular has several good franchises. In addition, it is not exposed to highly leveraged situations or LDC debt, and has more than 100% reserved for real estate loans.

For example, First Interstate has 8⅝s Baa2/BBB-minus rated notes, which trade at 94.61 to yield 9.65%. First Chicago Corp., among the better managed money center banks, has 9⅞s Baa1 rated subordinated notes due 2000, priced at 102.81 to yield 9.4% to maturity.

The basic message here to investors is simple: Don't be tempted by the relatively high yields to reach for bonds of commercial banks. In selected cases there may be good buys. But in many other cases, the yield differential isn't worth taking on the extra risk.

While stocks may look dear in terms of their depressed earnings, they are reasonably priced in terms of probable postrecession earnings.

Mumbo jumbo

BY DAVID DREMAN

David Dreman is managing director of Dreman Value Management, L.P., Investment Counsel, New York, and author of *The New Contrarian Investment Strategy.*

"WILL THE RECESSION be a double-dip?" is one of the most commonly asked questions today by investors and the media alike. The same question was popular in 1982, only back then it was fashionable to ask if the pattern out of the recession would resemble a "V," a "U" or an "L."

Tossing these terms around may make the pundits sound knowledgeable and help fill space in the dailies, but it adds little to the sum of human knowledge and is worse than useless for investors.

In the first place, the preliminary economic indicators on which the speculation is based are unreliable. Such initial economic and Fed figures as the estimate of the most recent quarter's GNP, the leading economic indicators or the growth of M1 or M2 are invariably substantially revised. This takes place weeks or even months after their release, as more detailed data come in. It is only months after the fact that economists can state definitively that we are in a recession or have moved to the recovery stage.

Thus a positive reading of an important indicator that sends stocks on an upward climb may be changed sharply months later.

Yet some people treat as gospel all authoritative-sounding news releases that seem to pinpoint economic trends. Knee-jerk reactions to these trends, though widespread, make money for brokers not for investors.

Suppose, though, we could find an omniscient forecaster who would give us absolutely accurate information as to where we now are in the cycle and when the recession will end. Would this lead to major market profits? The answer again is no. The stock market is the orneriest of critters, and there is no direct linkage between market and economic change. Often the market will drop months before a recession begins and rally months before it is over. The fact that the averages reached alltime highs first in February and again in August, as economic activity continued to fall, underscores this point.

So, what should the investor do? Ignore the economy entirely? No, but learn to ignore the apparent blips and bumps and concentrate on the bigger trends. It doesn't much matter if you are a few months too early or a few months too late, so long as you catch the broad swings.

And what is the big trend right now? Whether we are already in a recovery stage or it is still some months away, it seems to me that this recession is not very different from the average one of the postwar period, and the recovery will be equally healthy. This being so, stocks appear to present good value even though the market price/earnings ratio seems high by historical standards.

First, earnings have been knocked down sharply by the huge one-time charges taken by the banks and other financial institutions, as well as some of the giant industrials such as IBM and Westinghouse. With these write-downs and the effect of the recession, the "E" of the current market P/E has been cut sharply for the past four quarters. As the economy turns up, earnings comparisons should improve significantly against their low current base, making the market P/E much more reasonable.

Here are a number of stocks in industries whose earnings have been depressed by the recession or one-time charges that present good value at current levels:

Airline earnings have been crunched in recent quarters. The price wars accompanying the drastic industry shakeout have increased the red ink. However, the survivors should reap major benefits both from less competition domestically, as weaker competitors cease operations, and from the purchase of lucrative foreign routes at bargain prices. I would recommend a package of the three strongest.

American Airlines (58) is the largest domestic carrier, with major routes to Europe, the Pacific and South America. The company will be in the red this year, with earnings likely to begin to bounce back in 1992 and move higher over the foreseeable future. AMR trades at a P/E of 10 times 1992's results.

Delta (65), the nation's third-largest airline, has recently agreed to acquire most of Pan Am's major European routes, along with its shuttle. The stock trades at a P/E of 12 times fiscal 1992 estimates (ended June 30) and yields 1.3%.

UAL (129), the second-largest domestic carrier, also has been expanding rapidly abroad. Earnings could bounce back sharply next year to the $10-a-share-plus range. The stock trades at a P/E of 13 on estimated 1992 results.

Hawthorne Financial Corp. (20) is a small California-based S&L whose real estate losses appear to have peaked in the second quarter. Earnings should show improving comparisons in the current six months and continue to rise in 1992. HTHR trades at a P/E of 5, yields 4.8% and has a book value of $37 a share.

Meridian Bancorp (19) is a bank holding company operating in Pennsylvania. Real estate writeoffs are declining this year, which should result in earnings rising to approximately $2.50 a share. Meridian trades at a P/E of 7 on estimated 1991 results and yields 6.1%. ■

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Charles Hooper picks funds from the hot-performers list. That's a risky strategy, but Hooper has a saving grace: He pulls money out of stocks before bear markets.

The hot-fund strategy

BY MARK HULBERT

Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

MY LAST COLUMN *(Sept. 30)* noted some of the egregious exaggerations made by newsletter publishers in describing their *Hulbert Financial Digest* ratings. Here's the other side of the coin: a first-rate letter whose publisher hides his light under a bushel.

Of the dozen mutual fund services I have tracked since 1985, first place is held solidly by *Mutual Fund Strategist*, a $149-a-year letter published in the hills of Burlington, Vt. by one Charles Hooper. Never heard of this guy? Don't be surprised. Hooper does no direct-mail advertising, does not frequent the financial seminar and conference circuit and has not, to the best of my knowledge, been profiled in a national publication like FORBES. Hooper's letter has a circulation of about 5,000.

Here's what you missed by not being one of those subscribers: Since January 1985, the portfolios recommended in the Hooper letter have appreciated at an average compound annual rate of 19%, nearly 3 points ahead of the market. Moreover, you would have attained this market-beating result with 20% less risk than adhering to a buy-and-hold strategy.

Hooper doesn't pick low-risk funds. Rather, he picks the ones with high short-term relative strength—the ones that went up the most in the past several months or so (he doesn't divulge his exact formula). These funds tend to be the most volatile, which means they fall the hardest when the market sinks. This could be a formula for very bad performance, but Hooper has a saving grace: He is very skillful, or maybe just very lucky, with his market timing. He got entirely out of the market in July of last year, for example, several weeks before Iraq invaded Kuwait and sent the market tumbling.

Who is Hooper? A native Vermonter, he spent 20 years as a communications manager for the Air Force overseas. Upon leaving the military in 1980 and unable to get a job in his field, Hooper became a finance clerk with the postal service. He must have noticed all the publishers sending lucrative newsletters through the mail. His goal, when he started *Strategist* in 1982: to follow his hobby, the stock market, full time, and make more than his $24,000 post office salary doing it.

Goal achieved. In addition to the $750,000 of subscription revenue he takes in, he collects an average 1.5% fee managing $100 million and also receives royalties from outsiders who license his timing system to manage $85 million. His expenses are minimal; he has only four employees.

The big question is whether Hooper will be able to continue his successful timing. The fact that good timing is crucial to a strategy that involves buying funds from the hot-performers list can be seen in the below-market results of another mutual fund service, *NoLoad Fund* X*. This letter, like Hooper's, recommends investing in those funds that have exhibited the greatest recent relative strength. But unlike Hooper's, it does not recommend switches into cash and thus is vulnerable to the losses sustained by such funds. Over the period since 1985, *NoLoad Fund* X* has achieved a compound annual total return of 13%—6 percentage points per year below Hooper's and 3 below the market's.

It's difficult to get a good sense of how likely it is that Hooper will be able to repeat his good performance, since he tells us little about his proprietary models. Nevertheless, there are several lessons we can learn from Hooper's overall approach. One is that a successful system must be flexible enough to adapt to changed circumstances. Just as the casinos reacted to card counters in blackjack by changing the rules, so many mutual fund families have responded to fund-switch services by imposing restrictions on switching. Hooper has responded by revising his timing system to generate fewer calls. Prior to the last three years, for example, his intermediate timing system generated an average of 15 switches per year; since then, in contrast, it has generated an average of just 5.

A second lesson we can learn from Hooper's approach is that the major benefit of market timing is in reducing risk. If the investor approaches market timing with this in mind, Hooper argues, he will be less likely to place unrealistic expectations on what market timing can achieve. Obviously, no one will complain if market timing succeeds in beating the market; but market timing isn't necessarily a failure if it doesn't. So long as the market timing reduces risk by more than it reduces return, then it has been successful.

What is Hooper recommending now? He currently is bullish, with his model portfolios fully invested. His recommendation for his sector portfolio is Financial Program's Strategic Health Sciences fund, and for investors interested in more diversified funds, 20th Century's Ultra, Scudder's Development and Founders' Special. ■

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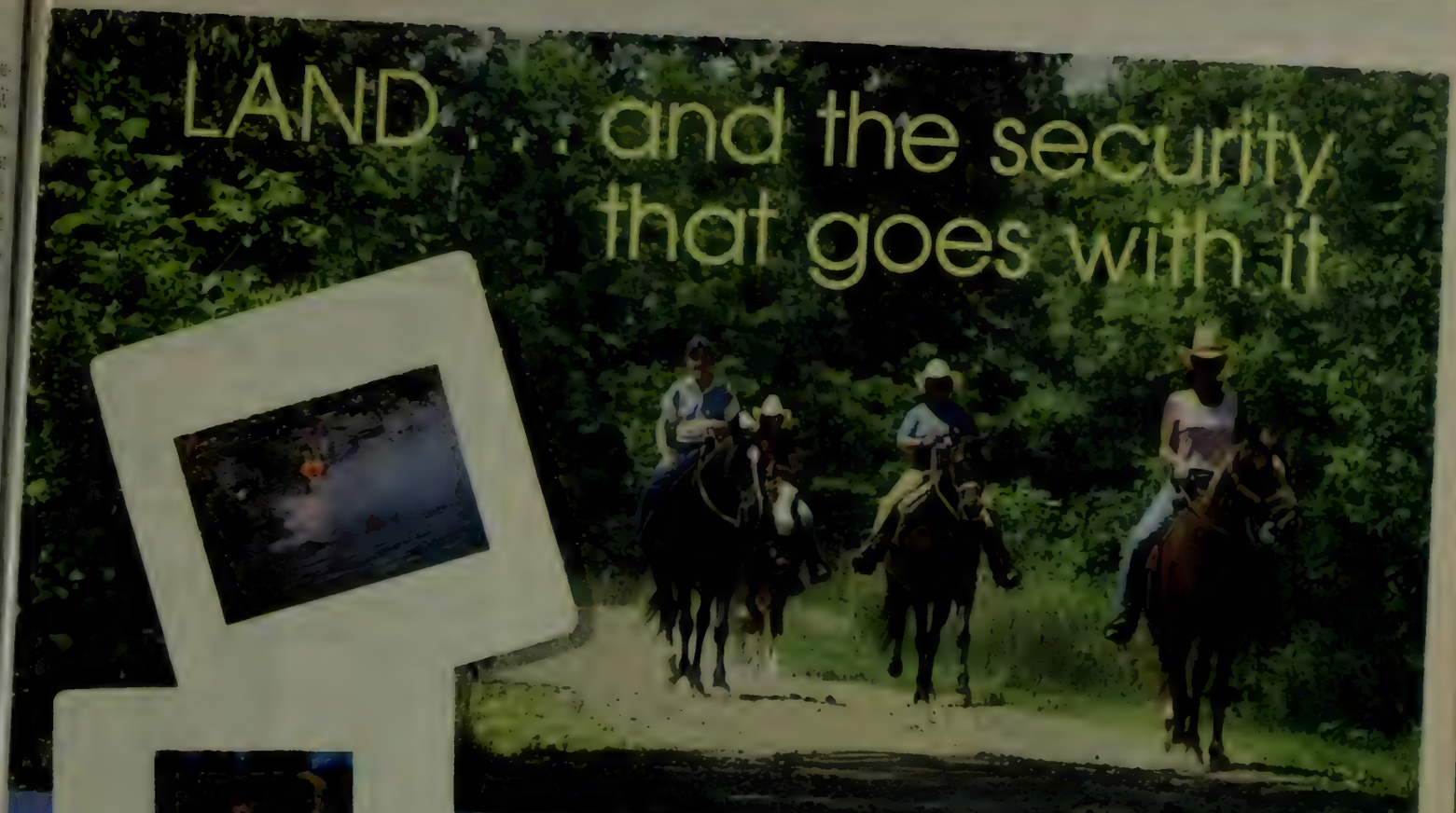

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Considering bargain-hunting in real estate? Don't jump in. The worst is yet to come.

You ain't seen nothin' yet

BY A. GARY SHILLING

A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and investment advisers. His firm publishes *Insight*, a monthly newsletter covering the business outlook and investment strategy.

RECENTLY I asked an audience of chief executives, most of them entrepreneurs: "How many of you made the majority of your fortune in real estate?" Up went a forest of hands.

No question, real estate has been where the money is for most of the time since the end of World War II. Indeed, in the 50-odd-year Kondratieff Wave sense *(see my Mar. 18 article)*, it was real estate that drove the economy in the current wave's upswing. Real estate was to the second half of the 20th century what riverboats and canals were to the early 1800s, railroads 50 years later, and the automobile early in this century. Real estate jumped from 13.5% of household assets in 1945 to 23.7% last year, and constructing, financing and furnishing real property accounts for almost one-fifth of U.S. output.

That era is over—just as the railroad-building era and the automobile-dominated era ended. The four pillars that supported postwar real estate have crumbled. The postwar babies who needed new homes, schools and office buildings are all well housed; all that remains to come is a spike in funeral-home construction three decades hence.

The government's soft spot for homeowners has hardened, starting with the 1986 tax act and accelerating with the embarrassing S&L bailout costs. The generosity of lenders toward even the flakiest of real estate deals is over. Inflation, that great friend of tangible assets, is gone, with low inflation, if not deflation, likely.

The consequences will be far-reaching. Entrepreneurs will have to look elsewhere for wealth creation. Families will have to look elsewhere for asset appreciation than to their own homes. Construction workers must be redeployed.

None of this is going to be smooth. The transition will carry lots of pain.

The crisis in commercial real estate has only begun. The building boom created immense excess capacity—office vacancies nationwide leaped from 5% in 1980 to 20% last year. After two decades of sloppiness, most service industries, especially heavy office space users like finance, insurance and professional services, are struggling to cut bodies and costs. It will take 13 years to absorb the office glut, even if no new space is added, and much longer in high-cost cities like New York and Los Angeles. Shopping centers? Vacancies there jumped to 9% this spring from 7% a year ago, and will stay high as spendthrift consumers become big savers.

No wonder, then, that nationwide office rentals have collapsed from a peak of $30 a square foot in 1982 to $18 last year, and may well fall further. Building prices are already down, but not low enough to make total returns attractive relative to Treasury bonds, especially as lenders continue to avoid real estate. Declines of 50% are likely, which will wipe out equity investors and seriously invade lenders' wallets.

The damage is worse than most people realize. Since 1984 office buildings' appraised values are down 40% in inflation-adjusted terms. Citicorp's foreclosed and problem commercial real estate loans equal almost 100% of net worth. Chase Manhattan's bad real estate to net worth ratio is 75%. Shawmut National's is about 80%, as is Bank of Boston's and Midlantic's. The Federal Reserve says that only one-third of banks' construction loans that came due in the past year were liquidated according to the original terms. Under the gun, banks have been rolling many of them into long-term mortgages, but this only postpones the inevitable.

Insurance companies have similar problems stemming from their commercial real estate loans, which jumped from $100 billion in 1980 to $260 billion this year. Bad real estate killed Mutual Benefit Life, and the delinquency rate on commercial real estate just leaped to an alltime record. At Travelers, problem mortgages exceed stockholders' equity. Prudential recently announced a cut in dividends because of bad real estate.

Don't look for an early turn for the better. This is no mere pause, as were other real estate recessions in recent decades. The marriage of Chemical Bank and Manufacturers Hanover will bring the abandonment of Chemical's New York headquarters and 6,200 pink slips. More empty offices. Banks are becoming impatient with faltering developers and are pressured by regulators to foreclose and write off bad real estate. Once the painful chargeoffs are taken, banks have no qualms about dumping the properties to eliminate expensive operating costs. This, too, further depresses real estate prices—and the tax collectors of municipalities, who often respond by raising tax rates, only further aggravate the problem. The RTC adds fat to the fire as it sheds its huge real estate portfolio.

Overbuilt, overleveraged and still overpriced, real estate is only beginning to be rationalized. This huge postwar economic driver—and generator of many fortunes—will be a big drag in the 1990s. ■

Behind these recurrent demands for tougher federal car-mileage rules and other "energy conservation" measures lie a lot of very greedy self-interests.

Energy piracy

BY ALAN REYNOLDS

Alan Reynolds is the director of economic research for the Hudson Institute of Indianapolis, Ind.

ENERGY MARKETS have been relatively trouble-free since President Reagan decontrolled oil prices in 1981, letting markets work their magic. But trouble looms as hungry lobbyists circle around a fat new package of energy pork, which is thinly justified by the quaint notion that energy is the one industry best left to Soviet-style central planning.

A new Hudson Institute study finds that "only Canada has reduced energy use per capita more than the U.S. during the 1980s." U.S. petroleum use has fallen by 11% since 1978. Do we still use more energy per capita than Japan or Germany? Yes, but because their population density is many times higher than ours, small apartments are cheaper to heat and cool, and short distances in small countries cut the cost of moving goods and people.

So, why do we still flirt with government interference in the marketplace in petroleum products? The myths of U.S. energy profligacy and vulnerability are designed to support a powerful lobbying effort to get the old "synfuels" gravy train rolling again—under the banner of "alternative" fuels. Synfuel subsidies pushed federal energy spending close to $16 billion in 1980 alone. Yet all of the "exotic" energy sources combined supply only three-tenths of 1% of our energy needs.

"Biomass," a trendy new synfuel disguise, mainly means ethanol, which is twice the price of gasoline and already gets a tax break equivalent to 54 cents a gallon. Methanol spews out gobs of toxic formaldehyde and tends to explode. The political impulse to dole out subsidies to such "alternative fuel" industries has little to do with energy, except the energy of special interests. Ethanol, the most feasible of such fuels, is 90% gasoline anyway. And it may well require a gallon of oil to create a gallon of the costly supplements, by using such energy intensive materials as fertilizer, pesticides and farm machinery to produce food to burn.

A related "conservation" plan is to raise corporate average fuel economy (CAFE) standards to 40 miles per gallon, which means cars the size of a Yugo. More highway deaths and cripplings would result, assuming people were dumb enough to buy such government-mandated vehicles. CAFE standards and jawboning have already discouraged the production of large or powerful cars in the U.S., providing a foreign-aid program for makers of Japanese and German luxury and sports cars.

What the would-be planners forget to mention is that most mileage improvements in U.S. cars took place before CAFE standards took effect in 1978, and subsequent improvements could be predicted from higher gasoline prices alone. More miles per gallon cuts the variable cost of driving, so added miles offset the fuel savings.

However, the real point of passing absurd CAFE standards has nothing to do with the quantity of fuel or quality of air. The real motivation driving many of the proponents is to bribe automakers with special exemptions from impossible rules if they agree to produce electric and "alternative fuel" vehicles.

The federal government is contemplating requiring Detroit to produce more electric cars, ostensibly to help the "greenhouse effect." But electric cars require electric power plants, which already account for one-third of all hydrocarbon emissions, while cars account for only one-fourth. And those costly car batteries end up as tons of toxic waste. The principal beneficiaries of a forced switch to electric cars would be the electric utility lobby.

Proponents of a federal energy policy also argue that we need to reduce our vulnerability to a disturbance in world oil supplies. But it is impossible to escape global shocks to world trade, whether a country imports oil or not. In both 1980 and 1990, Britain, which is self-sufficient in oil, sank into deep recession; Japan, which imports virtually all nonnuclear power, was unscathed.

Bootleggers and Baptists both want to ban liquor sales on Sundays. Similarly, there is a lot of money to be made from whipping up phony energy and environmental scares and then passing a law requiring the public to buy snake oil as the official cure. There is no more justification for central planning in the energy market than there is in the copper market. World oil reserves are larger than ever, and vast areas of the globe may soon open to exploration. In a world of rapidly improving technology, the worst thing we could do would be to stifle innovation and flexibility with rigid rules, and their inevitable political favoritism.

So, next time someone tells you that this country badly needs a federally supported and mandated energy policy, ask him or her: Who would be the real beneficiary?

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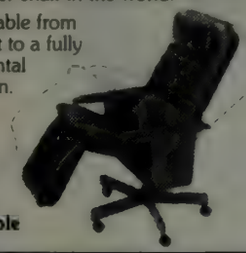

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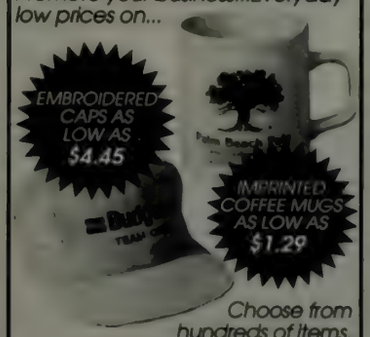

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Backloading

ANALYSTS Chris Kotowski and Cheryl Swaim of Oppenheimer & Co. are bullish on banking. They think the industry's fundamentals will likely bottom by the end of 1992; after that they expect a recovery and several years of growth. So even after the group's big move in 1991, the analysts think there's plenty of upside left.

But there's no need to hurry into the stocks. In a recent report, Kotowski and Swaim note banks typically take only 40% of their losses in the first half of the year and 60% in the second. Although their published data cover only 1988-90, they say the pattern was similar during the five preceding years. Write the analysts: "This phenomenon of backloading losses during the year is in particular driven by frequent fourth-quarter 'special' charges that 'clear the decks' for the following year."

Bank stocks apparently follow a similar track. In each of the past five years, say Kotowski and Swaim, bank stocks did much better in the first half than in the second. In short, investors are too optimistic in the first half, and sell on disappointment in the second.

Kotowski and Swaim think another round of "cleanup" charges is a distinct possibility in 1991, as many banks try to position themselves for a sustained recovery. Hence the analysts think bank stocks may disappoint later this year, which could present buying opportunities. Among their recommendations: Bank of New York (recent NYSE price of 31¼), Comerica (43¼), NBD Bancorp (42¼), National City (37½), Republic New York (66¾) and Suntrust (35⅛).

Chilling effect

THE SALOMON Brothers Treasury-auction bidding scandal seems to be sending a chill through those who work in the equities market. Streetwalker recently spoke to an analyst at a prestigious Wall Street firm. He says that in the wake of the Salomon scandal, he no longer buys any stock for his own account that he has officially recommended to his firm's clients. This, no matter how much he may like the stock. It's not that the analyst thinks he'd have a problem complying with his firm's rules on when its

analysts can or cannot buy the stocks they recommend. It's that he simply doesn't want to leave himself open to any charge that he may have been involved in self-dealing.

When a good stock picker is afraid to own his own picks, it's a good bet that there are still a lot of unanswered questions regarding Wall Street's trading practices.

Short squeeze?

WHAT IS Fidelity up to? Short-sellers are buzzing that the mutual fund colossus ($144 billion under management) has been aggressively buying widely shorted stocks in an apparent attempt to squeeze short-sellers into covering their positions. Such a rush to cover, they note, would send the prices of these stocks higher, helping Fidelity to reap nifty near-term trading profits. Fidelity denies this.

The shorts point to the action in McDonnell Douglas during the latter part of August. (About 5 million shares, or roughly 30% of McDonnell's available float, are currently sold short.) Around that time news reports suggested the cost overruns on the C-17 cargo plane would be higher than expected. Previously, the company had announced the founder's son would be selling stock.

In the face of this bad news, McDonnell Douglas did not collapse. Instead, the stock would often mark time during most trading days, then surge on a few late blocks.

One battered short also claims that Fidelity has cut back on the often lucrative practice of lending shares it owns to short-sellers. By not lending stocks like McDonnell Douglas, which Fidelity owns a lot of, the big institution could conceivably make a brutal short squeeze more likely.

Again, Fidelity denies it has curtailed stock lending. Its response on McDonnell? "We just like the stock," says a spokesman. —LAURA JERESKI

Drug trade

THERE'S ACTION in the drugstore business. Privately owned Jack Eckerd Corp. recently proposed the takeover of Revco D.S., operating under bankruptcy protection. If the deal goes through, the merged company would have more stores than any chain in the U.S. The Eckerd move should come as no surprise. According to Economic Analysis Associates, a research firm based in Stowe, Vt., drugstores are a relatively strong sector in a lackluster economy.

The best stocks in the group moved up strongly earlier in the year, and have marked time since. But as the economy recovers, the better companies may well begin another round of appreciation.

What are the better companies? One is Deerfield, Ill.-based Walgreen Co., which operates over 1,600 stores in 29 states and Puerto Rico. In the fiscal year ended Aug. 31, the $6.7 billion (estimated sales) company earned an estimated $1.60 a share, up 13% over 1990. Projections for the current fiscal year are running around $1.85, which would make for a 16% gain. The stock—recent NYSE price of 33½—isn't cheap, at 18 times anticipated 1992 earnings. But it belongs in any collection of drugstore stocks, especially if it can be bought on weakness. (There are 123 million shares.)

Interested in a smaller-cap drug chain? Check out $465 million (estimated sales) Genovese Drug Stores, Inc., based in Melville, N.Y. Over 75% of its stores are on Long Island. For the fiscal year ended Jan. 31, 1991, earnings doubled, to 75 cents a share. It will earn an estimated 95 cents in the current year, and $1.20 in the year starting next February.

Investors have been buying into these prospects. The Class A stock—recent Amex price of 12½—has more than doubled in 1991. But despite the runup the stock still trades for only ten times estimated earnings for the

fiscal year that begins in just five months. There are 7.4 million shares, including 4.3 million shares of super-voting Class B stock, more than half-owned by the Genovese family.

Calling Cincinnati

CINCINNATI BELL Inc., the telephone holding company, serves 800,000 network access lines in the Cincinnati region and adjacent portions of Indiana and Kentucky. But a ho-hum utility it's not. That's because $1.1 billion (estimated sales) Cincinnati Bell, unlike other companies spun off by AT&T in the 1984 divestiture, has no antitrust restrictions on its lines of business. Thus unrestricted, it has expanded aggressively into software and information services, areas the Bell regional holding companies are clamoring to enter.

Cincinnati Bell has become the leader in providing third-party accounting software and services to the cellular industry. Last year about 70% of all cellular telephone subscriber bills in North America were processed using its systems. In the wireline industry, principal clients include AT&T and its own phone network. The company is also big in telemarketing.

In 1990 Cincinnati Bell earned $1.44 a share. But this year it has been hurt by the recession and a need for higher rates. Worse, it took $16 million, or 26 cents a share, of one-time charges in the second quarter. These related to software development costs and an investment in AT&E, a company that has filed for Chapter 11.

Since the writeoffs were announced, the Big Board stock has dropped over 20%, to a recent 18⅞. Indeed, analyst John Bain of St. Petersburg's Raymond James & Associates thinks 1991 earnings, excluding the writeoffs, will be only 80 cents a share. But Bain believes earnings will recover to $1.25 next year and that the stock is now a screaming buy. He also notes that Cincinnati Bell, thanks to its software and information businesses, may ultimately make a dandy acquisition candidate or partner for one of the regional Bells. Bain thinks the stock will go to 24 over the next 12 months. Meanwhile, it sports a handsome 4.2% current yield. (There are 61.4 million shares.) ■

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"The more things change . . ."

70 years ago in Forbes

(From the issue of Oct. 15, 1921)

"What has become of the war towns—the complete cities that were built up almost overnight to turn out munitions and engines of war? Hopewell, Va. was one of these. . . . Its stores were closed, its theaters and churches boarded up. . . . But that wasn't the end of Hopewell. Du Pont offered the city and plant sites for sale, and today the once deserted town has [become a thriving] industrial and commercial center. . . ."

Hopewell, Va., a World War I munitions town, became a thriving industrial center.

"The tax revision bill has struck several snags; the agricultural interests want the transportation taxes repealed; various politicians would still further reduce the rate on incomes of $15,000 or less and substitute therefore a graduated levy of 10% to 20% on incomes of corporations; the sales tax still has its adherents; and there are those who insist on continuing heavy taxes on large incomes."

60 years ago

(From the issue of Oct. 15, 1931)

"President Hoover and his Administration are faced with the increasingly difficult situation at home. Treasury receipts for the first quarter of the new fiscal year ended in September continue to decline rapidly and amounted to less than $590 million, a drop of nearly $250 million from the same period last year. Total government revenue is now estimated to fall below $3 billion . . . compared with well over $4 billion in 1930."

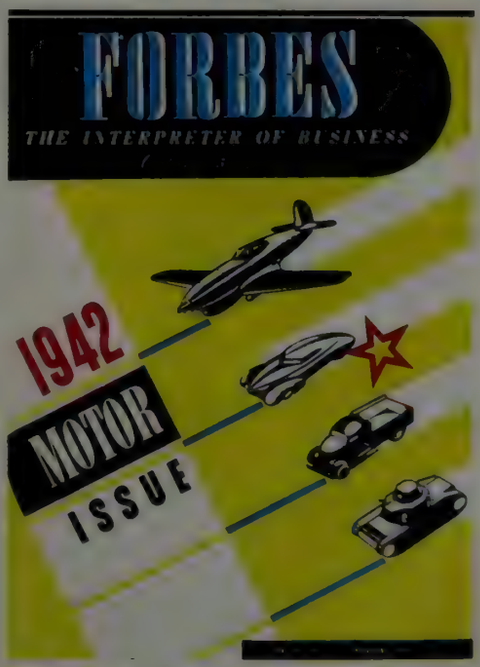
"Today the electric industry has more domestic customers than it had in 1928, by 9.3%. The average customer's yearly bill has been stepped up, by 10.2%. Each customer is using more of the industry's product, by 25%. Yet the unit price of the kilowatt hour has been lowered, by 11.8%. Because of this record, the electric industry's 285,000 workers are holding their jobs, and their $440 million annual payroll is being maintained."

50 years ago

(From the issue of Oct. 15, 1941)

"Don't you rate our automotive industry as the best-managed in America? I have long regarded it as such. Now more so than ever before. No other industry has been so heavily relied upon by the government since the nation became imperiled. It has proved preeminently resourceful, preeminently responsive to defense demands, preeminently prompt and efficient to readjust its operations to produce the most vital armaments in enormous quantity."

–B.C. Forbes



Forbes' Oct. 15, 1941 cover saluted the auto industry's dual production.

"A plastic/mahogany airplane will soon fly into the civilian market. Though conventional in design (a low-winged, twin-motored model), the plane gets around the industry's problem of getting materials."

25 years ago

(From the issue of Oct. 15, 1966)

"The middle-income family is on the rise. A National Industrial Conference Board study says that just after World War II, one-third of all U.S. income was earned by households with the current annual equivalent of $7,000 to $15,000; today this income bracket controls more than half of all earnings. In the early 1940s, households earning less than $5,000 (in 1965 dollars) represented two-thirds of all families; now they are down to one-third."

"It's past time certified public accountants were called to account for practices that are so loose that they can be used to conceal rather than reveal a company's true financial picture. The owners of public companies and the analysts who recommend purchase or sale of their securities used to think they could rely on the honesty of financial statements certified by reputable outside auditing firms. But in some very spectacular situations, it has turned out that such certification was not of the value . . . that the public thought."

10 years ago

(From the issue of Oct. 12, 1981)

"When will the [stock market] fall be over? Until then, each new low prompts another round of margin calls and the slump feeds itself. Still, daily trading volume in this bear market has tended to be on the low side. Several analysts believe that the market needs to purge itself before bottoming out."

"Economically speaking we're getting to be a one-issue nation. We tend to concentrate all our attention on a single aspect of a problem rather than on the problem as a whole. Only a few years ago everybody was obsessed with the energy crisis. Then it was the falling dollar and the U.S. trade imbalance. Right now the single issue is the size of the federal deficit."

When the worms are scarce, what does a hen do? Does she stop scratching? She does not. She scratches all the harder. A lot of businessmen have been showing less sense than a hen since orders became scarce. They have laid off salesmen; they have stopped or reduced their advertising; they have simply resigned themselves to inaction and, of course, to pessimism. If a hen knows enough to scratch all the harder when the worms are scarce, surely businessmen . . . ought to have gumption enough to scratch all the harder for business.

–B.C. Forbes

A Text ...

Know ye not that ye are the temple of God, and that the Spirit of God dwelleth in you? If any man defile the temple of God, him shall God destroy; for the temple of God is holy, which temple ye are.
–I Corinthians 3:16-17

Sent in by Mulford C. Lockwood, Bowling Green, Ky. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Change is no modern invention. It is as old as time and as unlikely to disappear. It has always to be counted on as of the essence of human experience.
–James Rowland Angell

Self restraint is feeling your oats without sowing them.
–Shanon Fife

If by the time we are 60 we haven't learned what a knot of paradox and contradiction life is, and how exquisitely the good and bad are mingled in every action we take, and what a compromising hostess Our Lady of Truth is, we haven't grown old to much purpose.
–John Cowper Powys

Remember, when the peacock struts his stuff he shows his backside to half the world.
–Herve Wiener

When 'Omer smote
'is bloomin' lyre,
He'd 'eard men sing
by land an' sea;
An' what he thought
'e might require,
'E went and took—
the same as me!
–Rudyard Kipling

It is not only our errors which ruin us, but our way of conducting ourselves after committing them.
–Yvette Gilbert

The driver is safer when the roads are dry, and vice versa.
–Anonymous

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Lending money to your children is comparable to a bank lending money to a Third World country: You never get the interest back, let alone the principal.
–Joe Long

Art is the most frenzied orgy man is capable of.
–Jean Dubuffet

Everyone seems to assume that the unscrupulous parts of journalism will be the frivolous or jocular parts. This is against all ethical experience. Jokes are generally honest. Complete solemnity is almost always dishonest. The writer of the snippet merely refers to a frivolous and fugitive fact in a frivolous and fugitive way. The writer of the leading article has to write about a fact he has known for 20 minutes as though he has studied it for 20 years.
–G.K. Chesterton

Boldness becomes rarer, the higher the rank.
–Karl von Clausewitz

The very essence of romance is uncertainty. If I ever marry, I'll try to forget the fact.
–Oscar Wilde

Sometimes the pilgrimage from rags to riches is a journey from rage to wretchedness.
–R.M. Huber

The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well meaning but without understanding.
–Louis Brandeis

When men and women agree, it's only in their conclusions; their reasons always differ.
–George Santayana

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If you've always believed the only way to get an agile, aero-styled, high-performance sedan was to buy small, you're in for a big surprise. It's time to forget the past, and get to know the all-new 1992 Pontiac Bonneville.®

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That's the technical side. But to really get the feel of the new Bonneville, you've got to get behind the wheel. Notice how the solid-feeling controls react smoothly to the touch. How the analog gauges are well-defined for quick, decisive reads. How the whole cockpit is driver-oriented, and designed for performance. Then remind yourself this is a **full-sized** four-door sedan that can easily and comfortably carry six adults.

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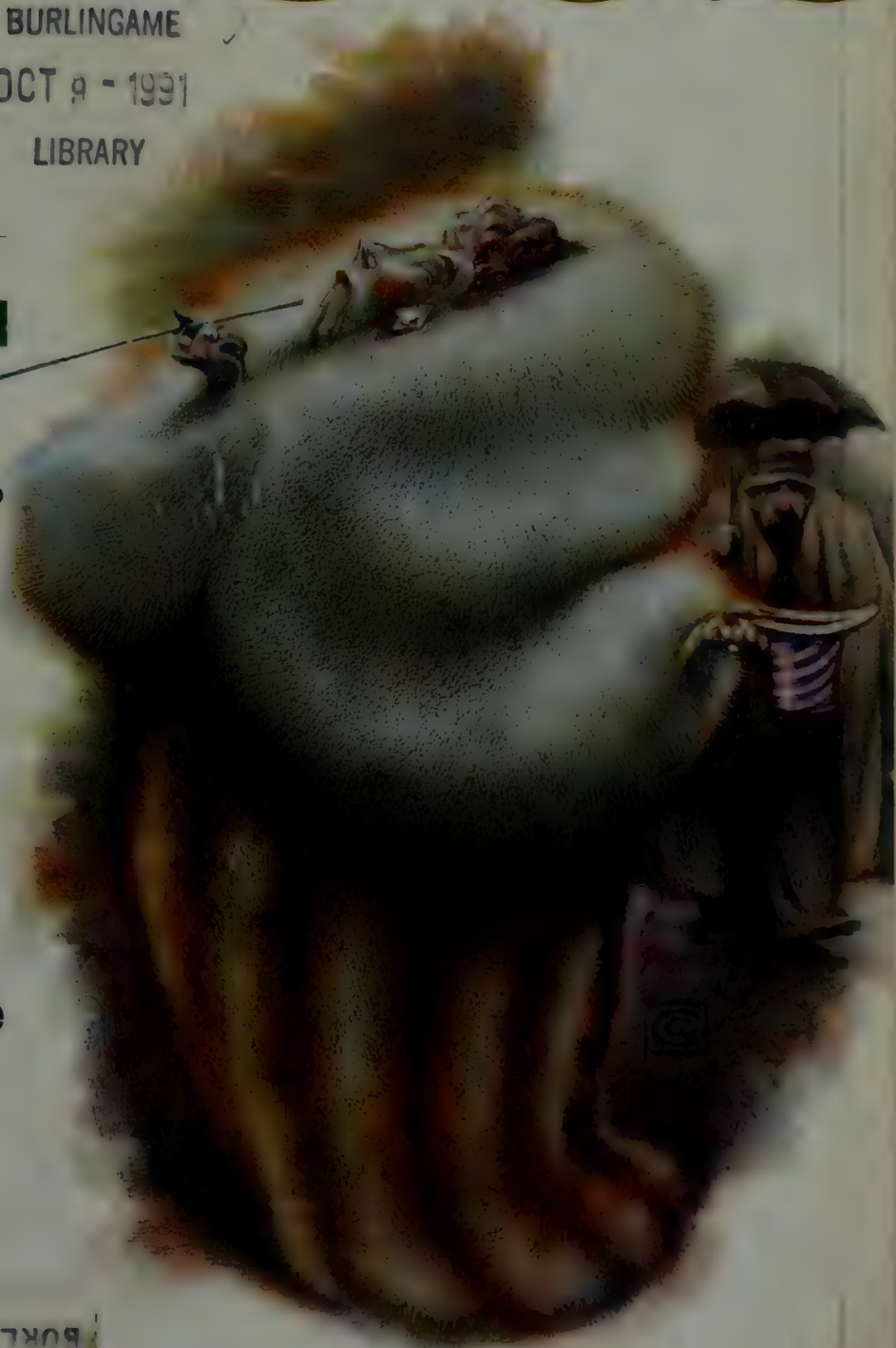
WHEN THE RICH GO BROKE

GETTING IT, KEEPING IT, LOSING IT



Advice from Bill Gates, Chuck Dolan, Wayne Huizenga, Steve Jobs

Dropping off The 400: What Oliver Stone doesn't tell you about being rich

Why the Kennedy fortune is dwindling

How John Rangos made gold out of garbage

Divorce among the very rich

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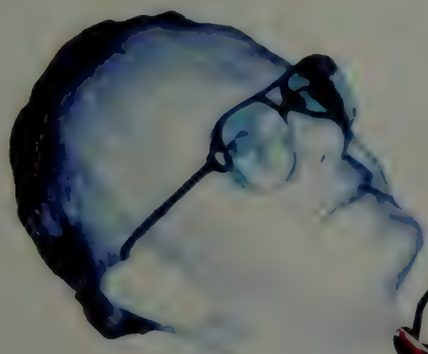

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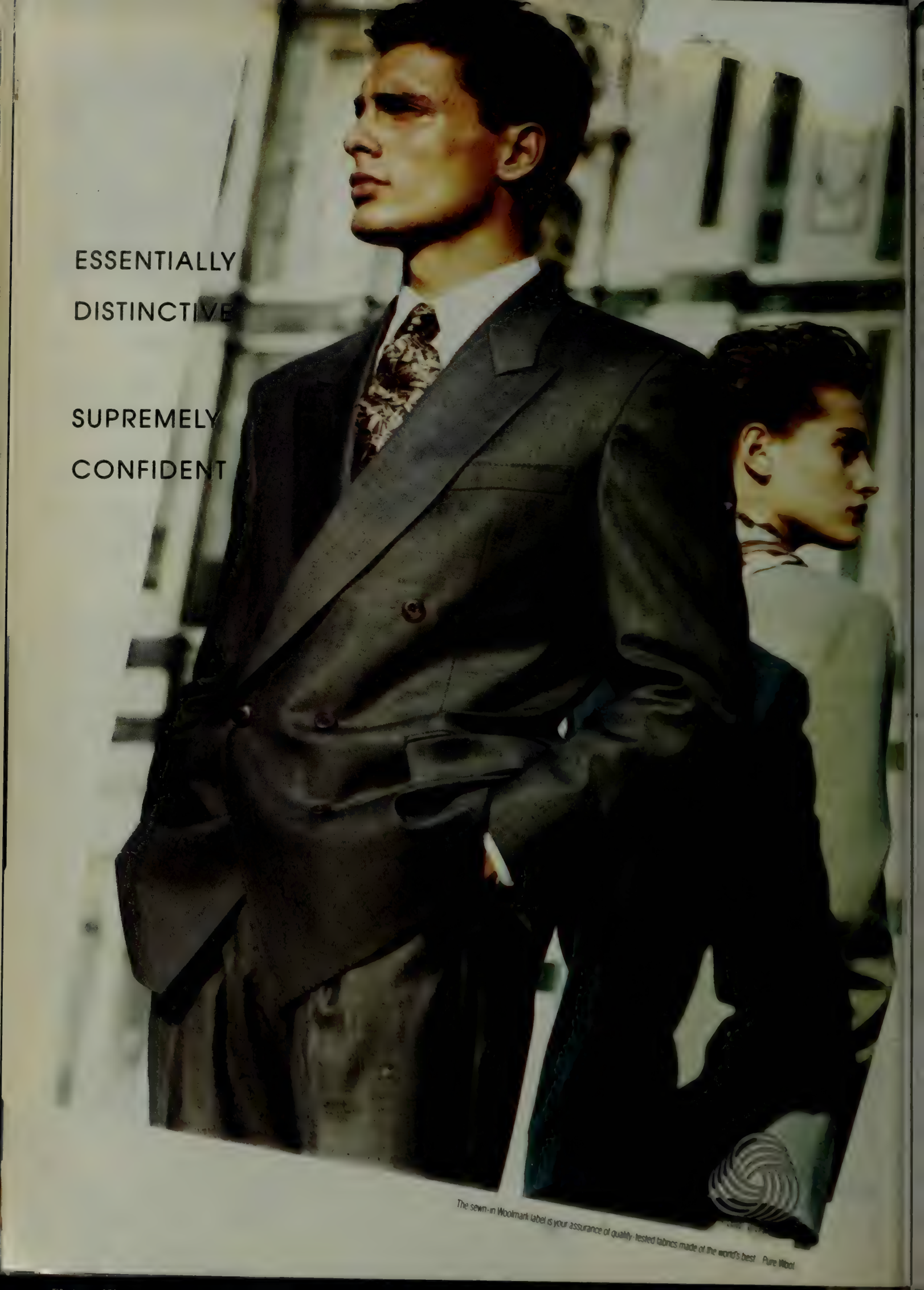
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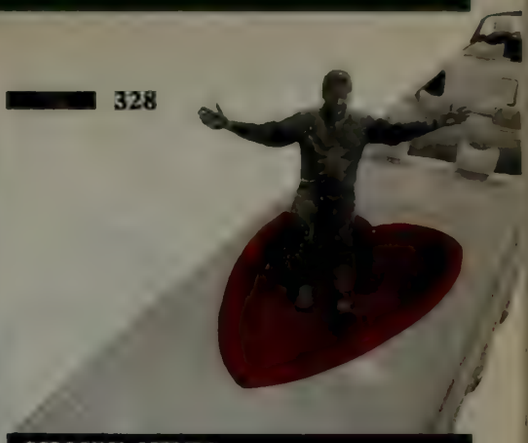

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Cover illustration by Carter Goodrich

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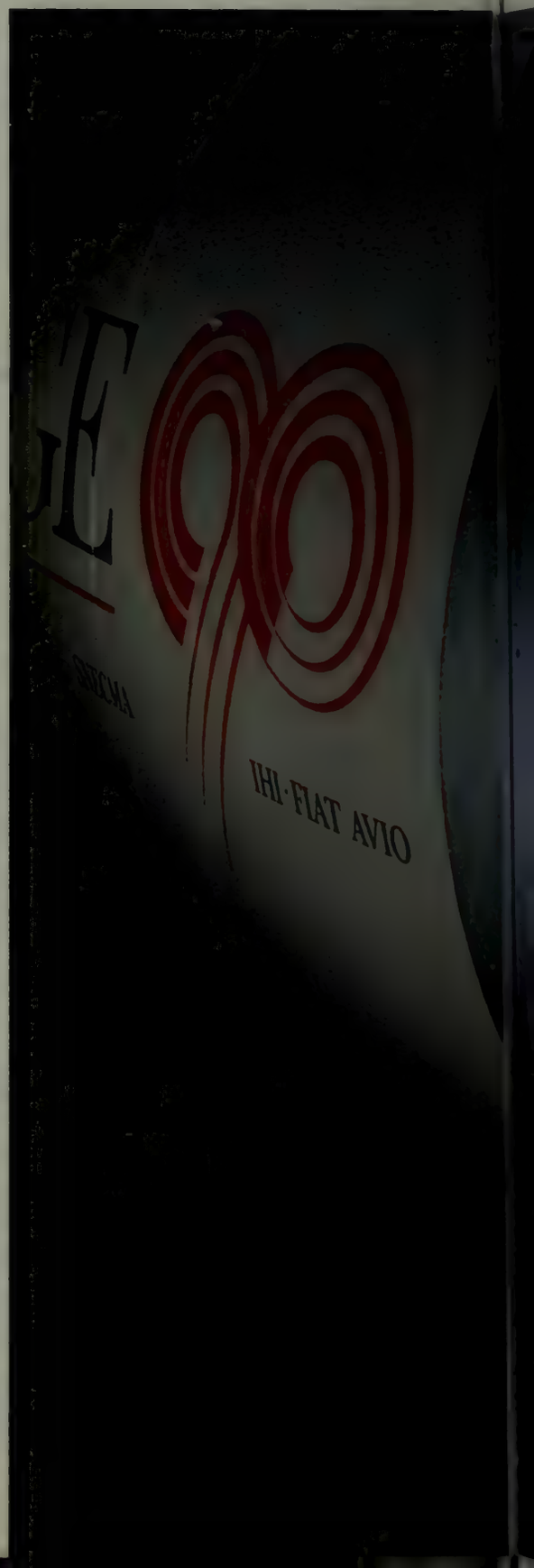

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Riding the waves

I WISH MOVIEMAKER Oliver Stone and other purveyors of trendy leftism in the movies and the media would read and comprehend George Gilder's essay in this issue, "The slippery slope of wealth" (copies to Tom Harkin). Especially this: "The central drama of economics is not the struggle between rich and poor—their interests aren't all that divergent—but the struggle between the past and the future, between the capitalist drive to invest in new ventures and the socialist impulse to preserve existing jobs, businesses and concentrations of wealth." Economist Joseph Schumpeter, from whom Gilder takes his inspiration, described "waves of creative destruction" sweeping aside old businesses, old ways, sweeping in the new. Turbulent, frightening and unsettling as these waves may be, try to tame them and you end with a stagnant economy. Page 38.

Dan Smith

George Gilder

The Forbes Four Hundred is a quite sensitive indicator of these tides. How so? Because when the heavy hand of the government is on the economy, wealth tends to stagnate and stays in the same old hands. But when, through lowered taxes and deregulation, the economy flourishes, all hell breaks loose among The Forbes Four Hundred. Old fortunes anchored in the established industries are washed away; new ones are thrown up.

Happily for the economy, constant turmoil characterized The Four Hundred in the 1980s. Of the 400 richest Americans in 1982, only 171 remain on the list in 1991. Most of the 230-odd dropoffs were pushed off by newcomers. Mark this: Only 160, 40% of The Four Hundred, simply inherited their wealth.

Harry Seneker supervised The Four Hundred, as he has every year since it started. I asked him, "Could you identify a typical rich American?" After lots of thought and lots of checking the computer for patterns, he announced that there was no such thing as a typical rich person. A good number of them, however, did have one thing in common: Their wealth was newly minted and came from cashing in on the social and technological changes of the past few decades. Riding those waves of creative destruction, as it were.

So if Oliver Stone wants a good villain for his next movie, instead of a Wall Street dealmaker, why not a populist politician or a Harvard prof advocating government regulation and "industrial policy"?

This special issue is more, much more, than just a gossipy chronicling of the rich—as a glance at the table of contents will show. Harry Seneker was ably assisted this year by Jody Brennan, Lisa Coleman, Jason Halperin, Clarita Jones, Dolores Lataniotis, Evan McGlinn and Wendy Tanaka.

Jean W. Briggs
Editor

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Gruss pay

AGNETA GRUSS GILLEN says she thought ex-husband Martin Gruss was rich, but she had no idea how rich. Then Martin, son of former Four Hundred member Joseph Gruss, bragged to FORBES that he was worth $250 million *(Jan. 8, 1990)*.

So Agneta, a blonde Swedish ex-stewardess, is trying to reopen their 1988 divorce settlement, in which she got 3.6% of Martin's assets. Why did she settle for so little? In court papers

Robin Bowman

Divorcée Agneta Gruss Gillen
"For me, $30,000 a year, taxable? No."

Agneta claims to suffer from "Swedish Mentality Syndrome," a Nordic emotional disorder whose victims, she says, are incapable of confronting unpleasant feelings. That paralyzing affliction, she adds, allowed Martin to completely dominate their 15-year marriage and dictate the terms of their divorce settlement.

Martin Gruss did not return phone calls seeking comment. But Agneta's chances of getting more money are slim. After freely accepting the original settlement, she must now show either that Martin fraudulently hid assets or that the agreement is grossly unfair under the New York State doctrine of equitable distribution. Tough to prove: Agneta and her two children with Martin draw on a trust that spews out $1 million a year in income. They live in a $6 million house in posh Bedford, N.Y. and tool around in a Rolls-Royce and a Cadillac.

Agneta's complaint was thrown out of New York State Supreme Court last year and is now before a state appellate court. And Martin isn't nearly as rich as she thinks. FORBES pegs Martin and his father together at some $270 million. Agneta says her real desire is to get out from under Martin's control. Nearly 20 years after she last worked full time, would Agneta, 46, consider getting a job? "For me, earning $30,000 a year, taxable, with one week vacation?" she asks, incredulously. "No. It wouldn't work." And she doesn't have to.

The trouble with Harold

HAROLD BROWN'S days as Boston's biggest landlord look to be numbered. The 66-year-old developer used inflated cash flows on his apartment and commercial buildings to borrow more from eager banks and expand his empire. Brown fooled FORBES, too, convincing us he was worth some $500 million. His true net worth became clear last March when Brown filed for personal bankruptcy after negotiations with his 35 banks broke down (FORBES, *Aug. 5*).

The filing enabled Brown to keep control of his properties—but maybe not for long. Last month, in a separate dispute between Brown and United States Trust Co., Massachusetts bankruptcy court Judge William Hillman wrote in a preliminary decision that the bank could collect rents from defaulted Brown properties on which it had lent $18 million. The decision would shift effective control from Brown to United States Trust, by

Sam Rosenthal

Busted Boston landlord Harold Brown
Now his banks get the rent checks.

giving the bank the rent. It would open the door for Brown's other bank lenders to seek the same deal.

Brown has himself to blame. United States Trust, run by friend James Sidell, had generously agreed to let Brown manage the properties and, in one case, to give him some of the sale

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proceeds even if the bank didn't fully recoup its loan. But Brown spurned the offer, leaving Sidell no choice but to take him to court. –LAURA JERESKI

The Toyota mutiny

JAMES MORAN didn't get to be the world's largest independent Toyota distributor by being a nice guy. His Southeast Toyota Distributors, which sells cars in the Carolinas, Alabama, Georgia and Florida, makes Moran, 73, worth $700 million *(Oct. 23, 1989)*. But business associates seem to be tiring of his aggressive tactics.

Earlier this year, a former North Carolina franchisee alleged in a petition to state regulators that Southeast violated a 1988 consent decree by

Jim Moran, master car salesman

Could he lose some of his licenses?

continuing to give special allotments of cars to favored dealers. In an earlier suit that led to the decree, three Southeast dealers said they were denied their fair share of cars for refusing to comply with a false sales-reporting scheme designed to increase Southeast's allocation of cars from Japan.

In a regulatory hearing scheduled to start in November, two former Southeast executives are expected to testify that they and other company officials lied about the company's sales practices in the earlier case. The judge could revoke Southeast's license to operate in North Carolina.

More than a dozen other suits have been launched against Moran by current and former Southeast dealers alleging coercive sales practices, including one set to go before a state court jury in Darlington, S.C. in January.

In an August statement, Moran said nearly all those dealers "closed their businesses owing large sums of money to us and other creditors." He added, "Those who have neither the talent nor the management skills to sell our products have only themselves to blame." –GRAHAM BUTTON

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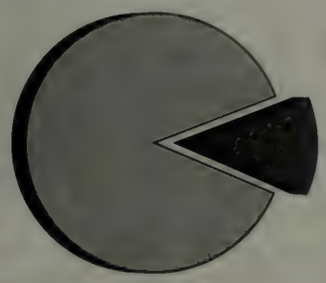

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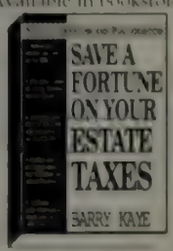
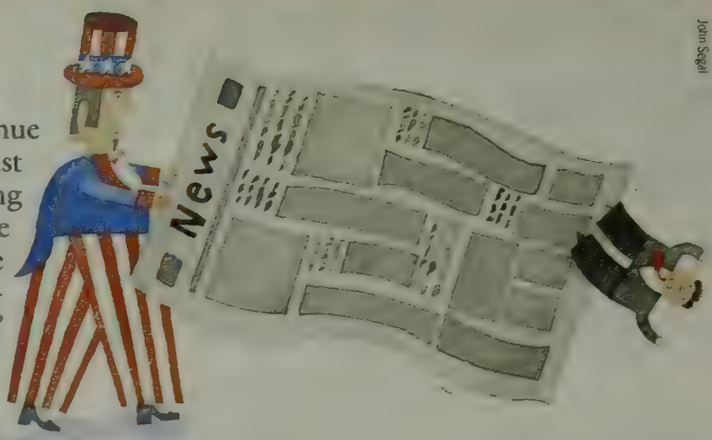


"Much useful advice from a pro."– *Forbes*

* BASED ON CURRENT ASSUMPTIONS ©1991 WEALTH CREATION CENTERS

Bad news for the Newhouses



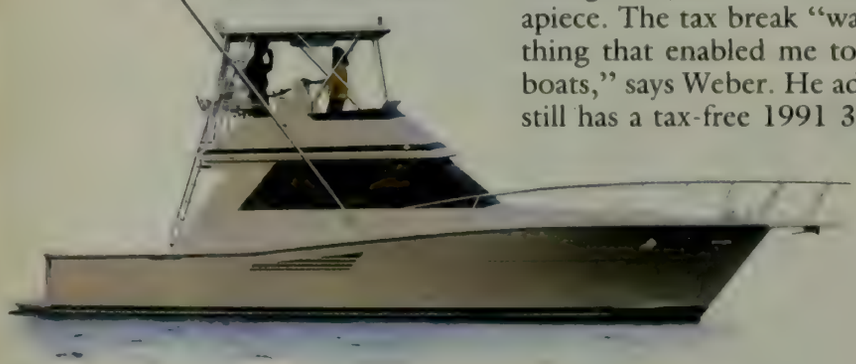
John Sajan

THE Internal Revenue Service has just achieved a stunning court victory over the billionaire Newhouse family. The case concerns the Newhouses' $320 million acquisition of Michigan-based Booth Newspapers in 1976. After the purchase, the Newhouses claimed a tax deduction of $70 million for depreciation and amortization of such intangible assets as subscriber lists. But the Appeals Court agreed with the IRS that the expenses were nondeductible goodwill, and therefore disallowed the deduction.

As of now, the Newhouses owe an extra $25 million or so in back taxes, plus interest. But that is only the tip of a huge tax-liability iceberg. The IRS is challenging some $9 billion of similar deductions taken for all kinds of intangibles during the 1980s merger wave. Until recently, court decisions were favoring taxpayers on this issue. But the Newhouses' loss and another recent decision could spell bad news for recently acquisitive media companies. –VICKI CONTAVESPI

Get 'em while they last

AVOIDING the 10% luxury tax on new boats priced at over $100,000 is easy—and legal—provided buyers are willing to purchase a 1990 or 1991 model that has not been previously owned but has been to a few boat shows.



The Viking 38-foot convertible
For sale, luxury-tax free.

As a consequence of some arcane "safe harbor" rules written by the Internal Revenue Service, new boats that were in dealer inventory and that had more than 100 hours on their engines before Jan. 1, 1991 are almost all exempt from the tax.

Richard Weber, the owner of South Jersey Yacht Sales in Cape May, N.J., spotted the loophole and got a letter ruling from the IRS assuring him that he could sell four such demonstrator boats without collecting the tax. Now other dealers are climbing aboard. Weber, who says the luxury tax has wreaked "wanton devastation" on his business, has sold three of his four luxury-tax-free boats for $200,000 to $600,000, saving $10,000 to $50,000 in tax apiece. The tax break "was the only thing that enabled me to sell these boats," says Weber. He adds that he still has a tax-free 1991 38-foot Viking convertible priced at under $350,000.

–JANET NOVACK

Rolling along

THE LUXURY TAX is hitting luxury cars, too, which hasn't helped Rolls-Royce. The company will sell about 600 Rollses and Bentleys in the U.S. this year, down from 1,150 in 1990. That is the lowest level since the early 1970s and, at fewer than 60 cars a month (at around $170,000 each), it's barely enough for the country's 50 Rolls-Royce/Bentley dealers to keep body and soul together.

But help is on the way. Rolls has developed a new turbo-charged Bentley Continental. The coupe model, which will begin arriving in the U.S. in February, is the first wholly unique Bentley in over 50 years. The list price for this 2-ton Tessie is $261,000. Tag on another $23,000 in U.S. luxury tax along with other charges, and it'll take $300,000 to get one out of the showroom. But top car buyers are apparently confident that the economy is about to turn. Even at that price, Rolls-Royce has presold the first year's delivery of 90 Bentley Continentals in the U.S. Dealers are ecstatic: Each Continental sold gives them a commission of about $50,000.

–PETER FUHRMAN

The Rolls-Royce Bentley Continental
At almost $300,000, it's yours.

Will Mr. Huntsman go to Washington?

UTAH demibillionaire Jon M. Huntsman Sr. has had only a brief fling with politics: He served as staff secretary to Richard Nixon from 1973 to 1974. But Huntsman's eldest son, Jon Jr., 31, is showing an interest in carrying the family's colors to Washington.

The younger Huntsman worked as a fundraiser on George Bush's 1988 campaign and then went to work for

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Commerce Department Secretary Robert Mosbacher as deputy assistant secretary for East Asia and the Pacific. He recently quit that job and returned home, as senior vice president and general manager of the international division at the family's Huntsman Chemical Corp. But the Salt Lake City rumor mill has it that Jon Jr. is contemplating running for the congressional seat held for many years by Democratic Congressman Wayne Owens. Owens is an old friend of Huntsman Sr., whom Owens accompanied on a trip to the Soviet Union in June aboard Huntsman's Gulfstream III jet. But another family friend, Utah Senator Jake Garn (who was also on the Soviet trip), has said he will not run for reelection next November, and Owens is likely to have a go at Garn's seat.

That would leave Owens' 2nd congressional district, which is now being redistricted, heavily Republican and up for grabs. And what better candidate than young Huntsman? Wealthy, well seasoned and well connected, he also knows quite a bit about Asia, at a time when the depressed Utah economy needs to attract foreign investment and promote local exports.

–PHYLLIS BERMAN

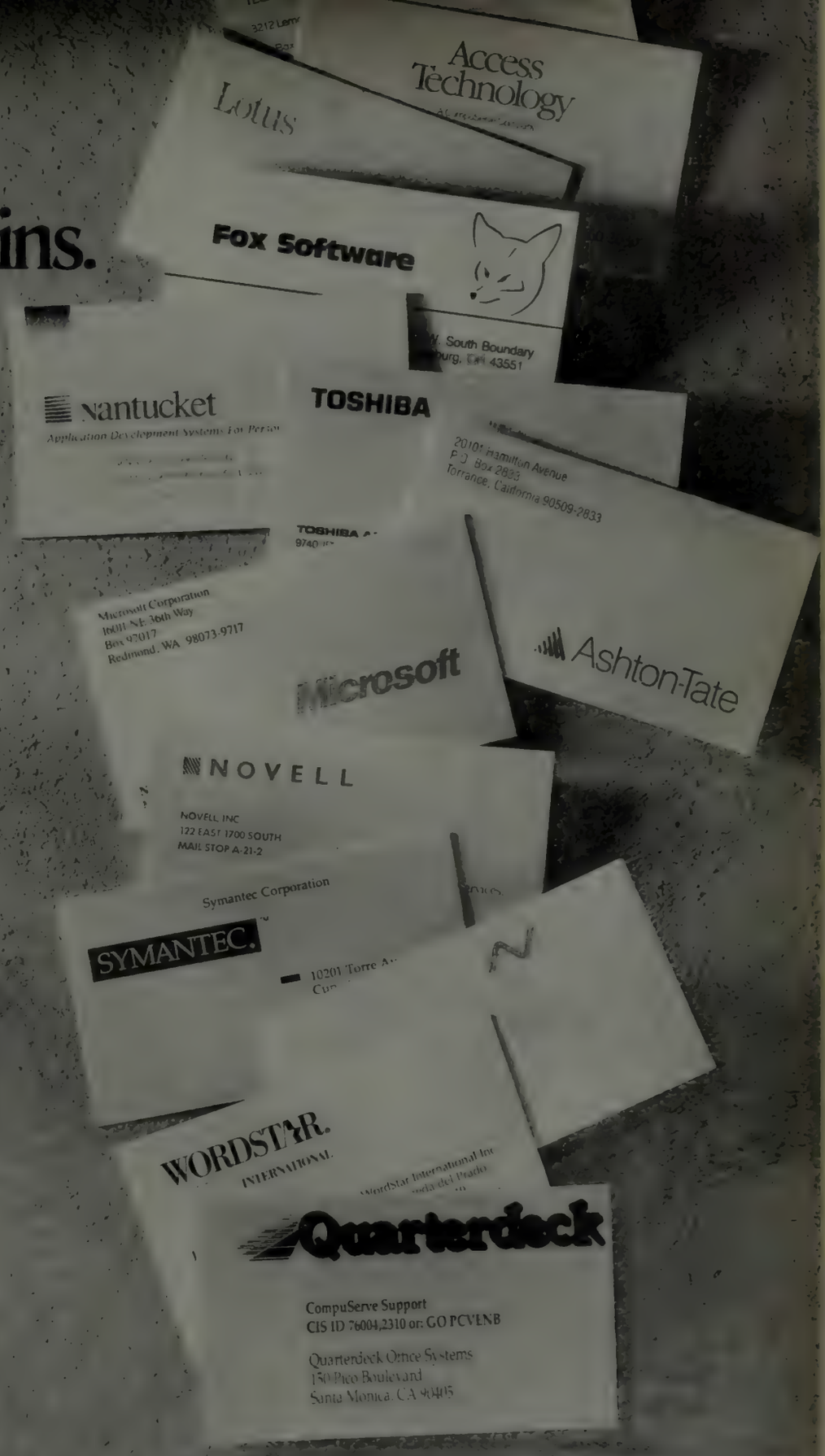
What makes Zell sell?

IN SEPTEMBER Sam Zell, the ultrarich Chicago speculator, said his rail leasing company, Itel, planned to sell its 26.9 million Santa Fe Pacific Corp. shares to the public at a $135 million loss. Most people concluded that Zell needed the money to pay down Itel debt. But it seems there's another reason.

At an executive committee meeting of the Santa Fe board, held just days before the announced sale, Zell tried to push out Santa Fe's chief executive, Robert Krebs, who has run the railroad for four years. Zell reckoned he could do better at turning around the company than Krebs.

But Lionel Dodd and Paul Reichmann, who are on Santa Fe's board representing the Reichmanns' Toronto-based Olympia & York, backed Krebs—and O&Y holds more Santa Fe stock than Zell. Thus thwarted, Zell decided to bail out and take his losses, it appears. –P.B. ■

Pick Our Brains.



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Fact and Comment

By Malcolm S. Forbes Jr., *Editor-in-Chief*

HOW TO AVOID A STARVING RUSSIA

TAKE A LEAF from Lenin. The founding father of the Evil Empire enacted a set of uncommunistic measures in the early 1920s, which he dubbed the New Economic Policy. The economy had collapsed; famine was widespread. The regime was tottering. So Lenin loosened communism's grip, allowing widespread private ownership and use of stores, factories and land. Most important, he issued gold-backed rubles. Suddenly, peasants were willing to sell food for this real money. Output soared. The famine ended.

The Soviet Union today has plenty of food within its borders. Last year it enjoyed near-record harvests. Spot shortages exist because much of the stuff was never transported to where it is now needed. This year harvests will be down, but there will be abundant food relief, if necessary, from the West.

Resurrecting the ruble would motivate millions of people there not only to harvest more than they normally would, but to get it to markets so that they could get paid with genuine money.

Thus, currency reform is, literally, of the essence. After all, in 1917, urban food shortages led to the riots that overthrew the czar and later made possible the communist coup. Peasants had food but were unwilling to ship it for worthless cash. In 1923 Germany abruptly ended its devastating inflation only when cities faced starvation; no one would ship foodstuffs for funny money.

There are a number of tried and true ways to revive the ruble, including an intriguing proposal from Federal Reserve Board Governor Wayne Angell and economic consultant Jude Wanniski. *(See F&C II, Oct. 16, 1989.)*

We must forcefully advocate effective measures for resuscitating the ruble. It would do the cause of democracy, as well as that of full stomachs, infinite good in that splintering empire.

YELTSIN—STILL INDISPENSABLE, STILL CONFOUNDING THE SKEPTICS

BORIS YELTSIN doesn't yet get proper respect in certain Washington circles and among many U.S. Russian specialists, even though he is *the* critical figure in making the immensely difficult transition to democracy and free enterprise.

No sooner had he heroically engineered Russia's Glorious Revolution than were experts muttering that he wasn't a real democrat, that he would quickly show his true colors as a boorish dictator. They quickly forgot that it was he who also turned back an attempted (Gorbachev-sanctioned) hard-line coup earlier this year.

They feared Yeltsin would bully other republics over disputed borders such as the murky lines between Lithuania and Russia. Instead, he met with Lithuania's president, quickly resolving the matter. He took the lead in hammering out the resolution of a bloody territorial feud between Armenians and Azerbaijanis.

Markku Ulander/Lehtikuva Oy/SABA

Lithuania's Landsbergis; peacemaker Boris.

Recently, Yeltsin appointed Vladimir Bukovsky, the brilliant, oft-persecuted dissident (he spent time in notorious "mental" hospitals where the KGB tortured opposition figures), to head a commission charged with opening up and photostating the files of the Communist Party and, soon, those of the KGB. An aston-

A "NEW WORLD ORDER" OF FREEDOM: A FORECAST FOR THE 1990s

By Malcolm S. Forbes Jr. from a speech given at Hillsdale College in the spring

WE HAVE a chance to build a "new world order," but one that is very different from what the term popularly implies. It will not be a new ideology sprung from the ashes of fascism, socialism or communism. It will not give rise to collective institutions designed to control the masses or to remake the world. It will not be brought about by political decrees or fancy crusades.

The new world order *will* be one that leaves individuals freer than ever before. It will be the product of evolution, rather than revolution. And its growth will be spurred by some very simple events that are already in progress.

(Continued on p. 350)

ished Bukovsky was told by Yeltsin to move as quickly as possible before those papers began to disappear.

Yeltsin deals with issues of immediate concern to people while Gorbachev remains enamored of arms control and the Mideast peace process.

Yeltsin faces two formidable challenges: the economy and the Ukraine. Even his experts don't realize they must immediately reform the currency. But if any Russian figure has the courage to break away from destructive *Western* advice on money, Yeltsin is the one.

Few Westerners appreciate the extraordinarily deep, complex ties between Russia and the Ukraine. Until the Mongol invasions in the 13th century, they were literally one country, one people. Almost all Ukrainians today speak Russian. There is considerable intermarriage. Millions of Ukrainians live in Russia and vice versa. What impact a real break between the two would have on the Russian people is impossible to foretell. But there are millions who would find such a rupture psychologically impossible to accept.

Pray for Boris' good health.

A LOTTERY WE ALL WIN

A NUMBER OF Americans, including the former head of the Immigration & Naturalization Service, are criticizing next week's immigration lottery. Under this innovative program, the first 40,000 people whose applications are received after 12:01 a.m. Oct. 14 will qualify for permanent residence in the U.S.

Critics cry that this is an unseemly, unscientific way to decide who comes to our shores. They're all wet. These carpers don't know their history. Most immigrants who came here had to meet only two criteria: to be in good health and to find passage across the ocean.

There is no reliable way to gauge the potential of human capital. Canada lets in only skilled immigrants; in the U.S. in recent years, immigrants had only to be directly related to people already here. Yet research shows that our newcomers over time do just as well as Canada's.

If anything, we should expand the lottery's scope. Instead of 40,000 winners, we should have 400,000. Despite the increased flow of foreigners coming here as a result of last year's immigration bill, the U.S. has comparatively fewer foreign-born residents than do Britain, France and Germany.

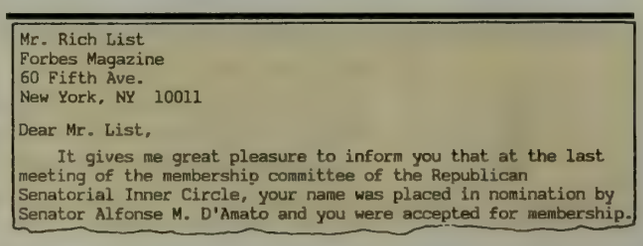
Why increase immigration? Because it contributes mightily to our economy and our culture. Astonishingly, within 11 to 16 years here, the average alien earns as much as, if not more than, his American-born counterpart. Immigrants pay far more in taxes than they absorb in public services. A disproportionate number start their own businesses. Nor do they displace women or inner-city minorities from the work force.

If it weren't for immigration, our high-tech industries would be a shadow of what they are. Between one-fourth and one-half of the Ph.D.s in our research laboratories are foreign-born.

We absorb peoples of different backgrounds better than any other nation. We should take full advantage of this unique strength. Instead of denigrating the lottery, we should celebrate it—and expand it.

THE GIGO (GARBAGE IN, GARBAGE OUT) FACTOR

ONE EXAMPLE is this fundraising letter from the Republican Senatorial Inner Circle. FORBES was guilty of a less humorous one a number of years ago. A renewal label was mailed to us with a line through the subscriber's name with this handwritten notice: "Died in 1974." Would you believe the name on the next renewal mailing?


Mr. Rich List
Forbes Magazine
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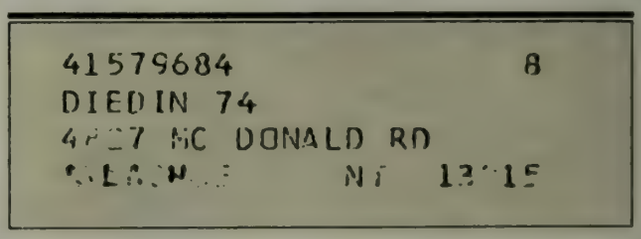
Dear Mr. List,

It gives me great pleasure to inform you that at the last meeting of the membership committee of the Republican Senatorial Inner Circle, your name was placed in nomination by Senator Alfonse M. D'Amato and you were accepted for membership.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LAUGH AND LEARN

Parliament of Whores—by P.J. O'Rourke (Atlantic Monthly Press, $19.95). Best humor book of the year. What is truly extraordinary is that it is also the most accurate, incisive, informative civics textbook around today, a wickedly wonderful rebuke to those numerous educators who make the study of government so boring and off-base. The chapters on agriculture, housing, anti-poverty programs, defense and environmentalism are especially superb.

Excerpt: *Republicans are the party that says government doesn't work, and then they get elected and prove it.*

Excerpt: *The* USS Mobile Bay*'s "Welcome Aboard" pamphlet was full of Statue-of-Liberty-on-its-side-style information. Building the ship "required enough steel to fabricate 4,000 cars, aluminum sufficient to produce 26 million soft drink cans, over 200 miles of electrical cable..." I always wish the people who figure these things out would just keep going: "The hawsers and bowlines carried aboard the* Mobile Bay *are long enough to hang every Democrat elected to Congress since Roosevelt's second term. The synthetic rubber in the fire hoses would make enough prophylactics to allow every business executive in Japan to visit Manila. The ship's bilge pumps could drain all the ecologically significant wetlands in Oregon in 24 hours." And so forth.*

Excerpt: *Politicians are interested in people. Not that this is always a virtue. Fleas are interested in dogs.*

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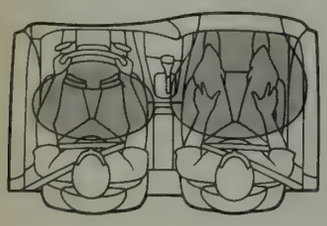

of its 24-valve V6 engine, the security of standard air bags for both driver and passenger and the supple contours of its leather-trimmed upholstery.* ❧ After all, if the new Mazda 929 didn't offer the prerequisites of uncommon comfort and performance, it not only wouldn't be a luxury sedan. It wouldn't be a Mazda.

THE MAZDA 929

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*Seats upholstered in leather except for back side of front seats, bottom cushion side panels, and other minor areas.

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Other Comments

Able To Cope

"I THINK KIDS should have enough money to be able to do what they want to do, to learn what they want to do, but not enough money to do nothing," said Warren Buffett. I asked his daughter Susan what it was like growing up with Warren.

"Well, he's a great guy," she said, "and we grew up completely normal. We didn't even get cars at 16, or anything like that. For years I didn't even know what he did. They asked me at school what he did, and I said he was a security analyst, and they thought he checked alarm systems."

"He compares money left to kids to welfare checks," I said.

"I know," Susan said. "It can have a debilitating effect, especially too much money at a young age." Susan thought wistfully for a few seconds. "I kind of think I'm old enough now not to be debilitated."

–ADAM SMITH, *The Roaring '80s*

Go for Broke

BY 1934 Walt Disney had a large house, played polo at a ritzy club, owned seven polo ponies and had a gardener. He decided to risk it all—by plunging into debt to create the world's first full-length cartoon feature. The possibility of total financial calamity appeared not to trouble Walt at all. Success hadn't made him conservative or fearful about losing what he had built. He explained, "There are some people who worship money as something you've got to have piled up in a big pile somewhere. I've only thought of money in one way—and that is to do something with."

Industry gossips thought Walt had gone berserk: "Nobody will sit still for an hour and a half of cartoons. . . ." *Snow White* was one of the glitziest, showiest premiers in memory. When the movie ended the audience rose from their seats and cheered.

–KATHERINE AND RICHARD GREENE, *The Man Behind the Magic*

Not in the Swim

SOCIETY is anything I'm not invited to.

–ANDY WARHOL, *New York Post*

Morning Glories

ARISTOTLE ONASSIS' yacht was a floating palace. His parties were often lavish beyond imagining. But his specialty was gifts to women. Jackie Onassis used to find diamond bracelets tucked in her breakfast tray flowers. Onassis loved indulging women. Said he, "If women didn't exist, all the money in the world would have no meaning."

–*Arizona Daily Star*

Doggedly Unique

MY PERSONAL favorite of this group [business magazines] is FORBES. It publishes some articles I can do without—like its annual "400 Richest People in America" issue. In many cases these people are simply not interesting enough to justify all that verbiage. There are three primary roads to wealth in America today: be born with the right set of parents and, through no cleverness, uniqueness or facility of your own, outlive them; deal off the bottom of the deck or short-weight people often enough so that you can place what you steal from them in your own bank account and later buy respectability with it; and (at last!) perceive a need, find a unique way of filling it and doggedly pursue it your entire life. This last group I find fascinating.

–JOSEPH L. SHAEFER, *Bringing Home the Gold*

Give me the luxuries of life and I will gladly do without the necessities.
–FRANK LLOYD WRIGHT

How about Lineage?

IN THE Gould spending derby George was first off the mark with his marriage in 1884 to Edith Kingdon, an actress with an inordinate fondness for ropes of pearls. To show them off properly she required large houses and lavish parties. Even on their private railroad car, formal dress was de rigueur at dinner. On one journey, through some mixup, the Gould car was placed in the center of a train instead of at the rear. This meant that travelers who wanted to get from one end of the train to the other had to pass through the Goulds' car. The situation was saved, to a degree, by the Goulds' English butler, who announced each stranger before he passed through.

–JOSEPH THORNDIKE JR., *The Very Rich*

A Matter of Degree

A FORTUNE of only a million is respectable poverty.

–WARD MCALLISTER, originator of the term The 400, *The Astors*, by Virginia Cowles

"I understand old Burton decided you can take it with you."

Drawing by Chas. Addams © 1960, 1978 The New Yorker Magazine, Inc.

Kenya. Vast herds of animals converge on a hot, dusty African plain. A bright orange sun hangs low on the horizon. Zebras, rhinos, giraffes, and elephants abound.

A pleasant dream, but the unfortunate reality is that due to poaching and human encroachment, the majestic herds are fast disappearing. It's Dr. Richard Leakey's job to see that they don't.

Leakey is Kenya's Director of Wildlife Conservation. "A somewhat curious position for a paleontologist," he admits, "but perhaps I understand better than most the patterns of evolution. What we do today will affect future generations."

"Saving our wildlife is not only an environmental necessity, it's a cultural one as well."

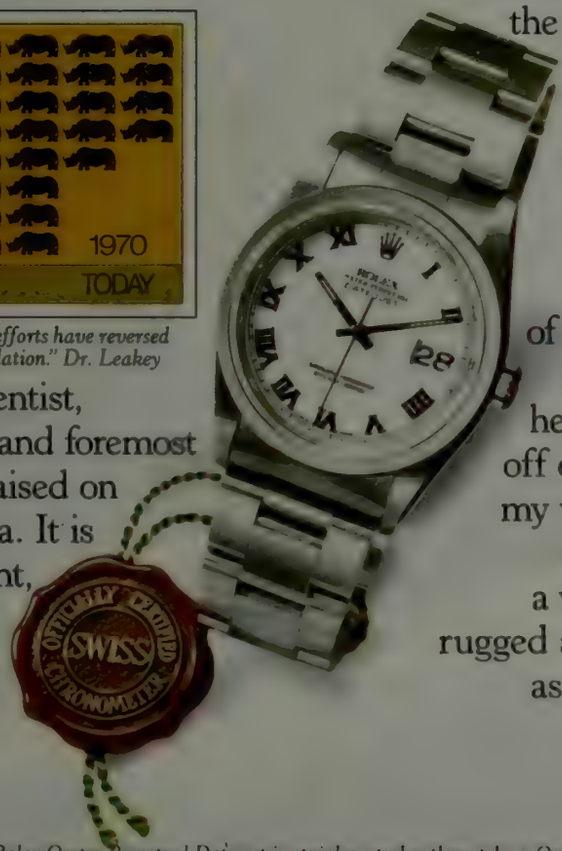
Dr. Richard Leakey

"Statistics indicate that our conservation efforts have reversed this decline of Kenya's black rhino population." Dr. Leakey

Beyond being a scientist, Richard Leakey is first and foremost an African, born and raised on the plains of East Africa. It is his love for this continent, and the rare and beautiful species in it, that has led him to this job.

"In 1970, there were over sixty thousand black rhinos in Africa," Leakey notes. "Today, there are about three and one-half thousand. Through our efforts we've managed to reverse this headlong avalanche toward extinction. It's important because the natural beauty of our wildlife is an intrinsic part of Kenya. To lose it would be to lose a major portion of our soul."

More than most, Richard Leakey is keenly aware of the imperatives of time. "My agenda takes me to all four corners of the globe," he says, "and whether I'm flying off on a lecture tour, or threading my way through the bush, I can't afford to be bogged down by a watch that's not as rugged and dependable as my Rolex."



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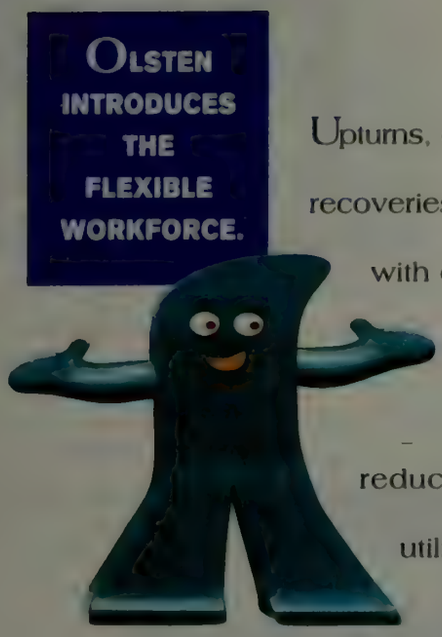

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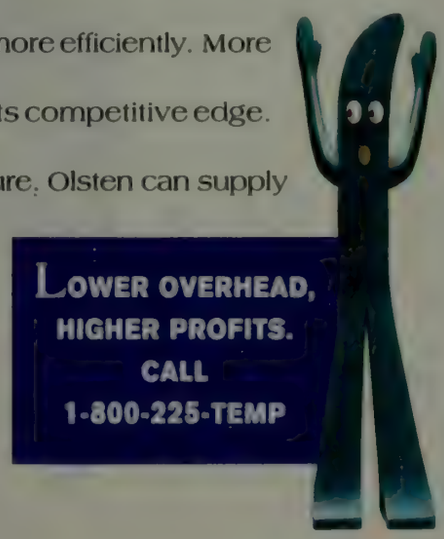

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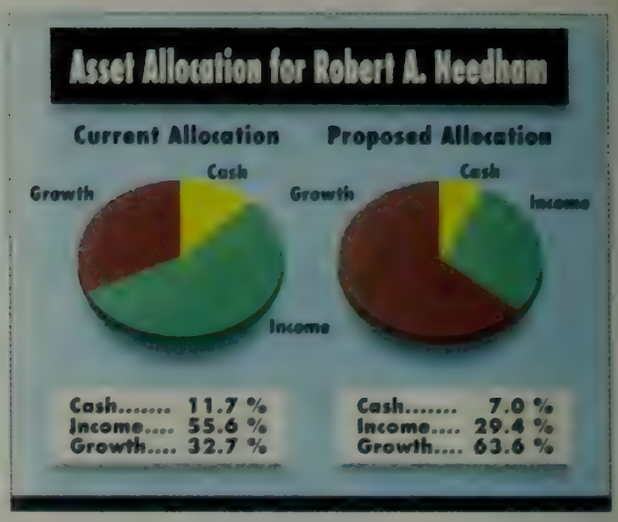

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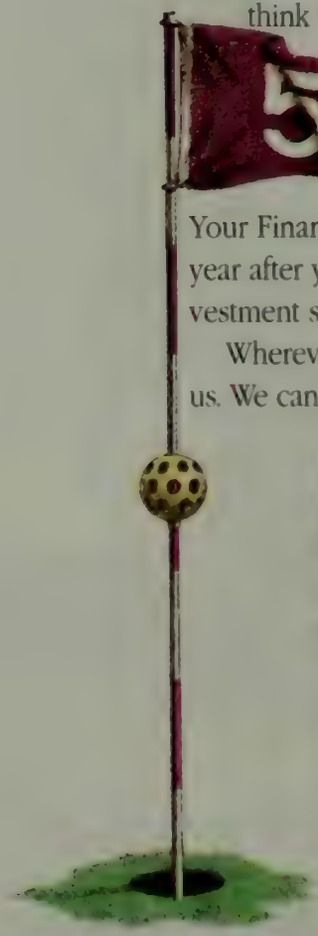

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AMERICAN EXPRESS

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

WHEN OUR SCHOOLS DO BADLY—SO DOES AMERICA

AMERICA FACES a clear and present danger to its existence because of the failures of our schools, according to Lamar Alexander, our new Secretary of Education. Most Americans would agree. It is rare that there is such unanimity on any issue, but the sad fact is that our schools *are* doing a very bad job of educating our children.

Too many of our high school graduates are simply not able to hold jobs, and American students rank near the bottom in most comparative ratings with students from our principal trade competitors.

The statistics mount up: Scholastic aptitude test scores for high school seniors are now the lowest since 1972; one out of three in the 11th grade cannot write a simple paragraph about himself; one in three cannot find France on a map; in 1988 a team of U.S. 13-year-olds finished last in mathematics, far behind South Korean and Japanese students of comparable age. Yet in the last decade we have increased our spending per student by 33%, more than either Germany or Japan spends.

AlDay/Miami Herald

An ABIG-Dade County kindergarten.

One of Secretary Alexander's most promising solutions is the plan that allows parents to choose the schools that educate their children; vouchers will enable them to spend the amount being spent by their public school systems. That would create competition, which would improve all the schools. Some 18 years ago, when I was Secretary of Health, Education & Welfare, I urged adoption of this voucher plan, but we were never able to overcome the bitter opposition of the public school systems in most states.

Some of Secretary Alexander's other proposals include testing all students by national standards; raises for teachers based on their teaching abilities, instead of regularly raising *all* teacher salaries; encouraging parental participation for both preschool children and those in school; an increased emphasis on science, mathematics and languages and on the training of teachers, plus the hiring of people proficient in these subjects as teachers even if they do not hold the required certificates.

The very failures of the public school system could lead to a wider adoption of the participation of business and industry in all phases of the educational process.

I wrote last year of General Motors' spending over $1 billion to reeducate high school graduates so that they could hold production-line jobs. This is not altruism on the part of GM; it's a business necessity, since the schools are simply not doing the job.

Now there are many other examples of business' stepping in to improve the quality of our schools.

One of these is the Wings Program to help parents prepare their children, ages 3 to 6, for school. Many corporations are buying this to give to employees with young children. It is a private Head Start program.

The American Bankers Insurance Group has launched a corporate kindergarten. Similar corporate-school partnerships, more than 100,000, have been formed since 1983 to help educate our future workers. The ABIG experiment provides the facility on corporate grounds while the Dade County (Fla.) school system provides the teachers and the instruction material. Called Satellite Learning Centers, these are new innovative schools that save the school system money, help corporations by increasing the productivity of employees (absenteeism declined 30%), and start a whole school generation out on the right foot.

Another experiment in Dade County: a private company has a contract with a school district to manage an elementary school and is aiming at a lower cost per student.

A long-term commitment to education has been made by Rockwell International. It recruits 1,000 science and engineering graduates a year and is aware that in less than 20 years there will be a national shortage of 700,000 scientists and engineers. So Rockwell is contributing to education from kindergarten to graduate school.

The big question mark is whether traditional teachers' unions will be able to torpedo such innovative experiments. One of the strongest arguments in favor of new concepts in education is that what we have could scarcely be much worse. It is clearly time to try something new, unless we want illiteracy, unemployables, drug abuse and worsening global competitiveness to continue. ■

F L E X

Berry Plastics Corporation
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$3,000,000

The CIT Group/Equity Investments
has provided equity for this financing.

THE CIT GROUP

Swissair
Swiss Air Transport Company Ltd.
(Lessee)

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U.S. Ownership Foreign Sales Corporation
Leveraged Lease

for

One McDonnell Douglas MD-11 Aircraft

I-ICHI KANGYO BANK NEDERLAND N.V.
provided the debt for the above transaction

ıup/Capital Equipment Financing
he equity in the above transaction.

Vari*Light, Inc.

$2,600,000
Loan

for

Computer Controlled
Automated Lighting Systems

p/Industrial Financing
r the above transaction.

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Bell Packaging Corporation
and its wholly owned subsidiaries
Menominee Paper Company and Dixico, Incorporated

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Senior Secured Credit Facility

Bedford Capital Corporation
Acted as financial advisor to
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CIT Group/Business Credit

Trinity Industries Leasing Company

$31,448,769
Single Investor Tax Lease

for

Railcars

The CIT Group/Capital Equipment Financing
structured and provided

Ideal Container Corporation

$2,000,000
Secured Line of Credit

The CIT Group/Credit Finance

TFS Leasing Limited
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TIPHOOK PLC

$50,000,000
Term Loan

for

20,000 Twenty-Foot Equivalent Units (TEU)
of New ISO Marine Shipping Containers

Equipment Financing
provided the financing
the above transaction.

First Equipment Company

$10,000,000
Discounting of Leases

for

Data Processing Equipment
and Peripherals

up/Industrial Financing

The Lionel Corporation

$50,000,000
Debtor-In-Possession
Facility

The CIT Group/Business Credit
structured and provided
the above financing.

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The Advance Group

$7,000,000
Secured Line of Credit

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the above financing.

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Delta Air Lines Inc.
(Lessee)

$75,000,000
Leveraged Lease

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One Boeing 767-332ER Aircraft

The CIT Group/Capital Equipment Financing
provided the equity for the above transaction

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Williams Brothers Construction Co., Inc.

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Term Loan

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Construction Equipment

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D I N G

Having risen through business to wealth and influence, the Kennedy clan has turned its back on the very system that nourished it. Funny thing. The clan's own wealth and drive have dwindled dramatically, and its influence is likely to dwindle correspondingly.

Shirtsleeves to

By Laura Jereski

AMERICANS MAY NOT have the Kennedys to kick around much longer. Senator Edward Kennedy's nephew William Smith still has deep pockets for paying his lawyers in the Palm Beach rape proceedings. But Smith and his generation aren't likely to be as well off as Ted and his generation are. The Kennedy fortune, once one of the nation's greatest, has dwindled to the point where it barely qualifies for The Forbes Four Hundred.

Blame Joseph P. himself, the founding father of the fortune. Many families don't believe in talking about business at the dinner table. Joseph Kennedy took that one step further. He didn't believe in talking business to his family at all. "We never discussed money in the house because, well, money isn't important," old Joe told one of his son Jack's biographers.

An odd attitude that, from a man who devoted his life to making money—and none too scrupulously. But his attitude may explain why none of his 9 children and almost none of his 29 grandchildren has shown any interest in business.

Today the estate of the man who once controlled a movie studio, a chain of movie houses, a liquor distributing company with valuable franchises, and prime real estate is worth perhaps $350 million. As family fortunes go, that isn't a great deal. And most of it is in a single, illiquid real estate property with no great future.

Make no mistake, these are not yet Arnold Schwarzenegger's poor relations. But at one time the Kennedy fortune was so powerful that the spending of it enabled the family to be forceful in American politics for several

Globe

Growing family
LEFT:
Joe with his wife, Rose, and family in 1937.
RIGHT:
Gathering in Hyannis Port in 1990 to celebrate Rose's 100th birthday.

shirtsleeves

decades, elect one son President and keep another one in an apparent lifetime job as U.S. senator.

Although the aura of the name may linger for a generation or two, the day is probably past when the family can buy its way into politics.

Shirtsleeves to shirtsleeves in four generations? Close to that. The chief remaining valuable Kennedy asset is the 6-million-square-foot Merchandise Mart/Apparel Center complex in Chicago. After taxes, operating expenses and improvements, the Mart complex spews out about $20 million free cash flow a year for the family members to divide and spend. That's still big money, but the Mart is probably a dwindling asset.

Income, which once supported just Rose Kennedy and 7 surviving children, now helps provide for their 53 descendants, many of whom work for not-for-profit institutions and draw little or no salary. In a broad sense the family is living off its capital.

The Joe Kennedy estate finances luxurious lifestyles and several political careers on principal that is worth less than half of what many—including FORBES—have long supposed it to be. The miscalculations started with a *Fortune* article in 1957 that pegged the family's wealth at $250 million. "Why didn't you tell me we had all that money?" Rose asked her husband at the time, according to his biographer, Richard Whalen. As it turned out, they never did. And what they did have they did not invest and reinvest wisely.

Let's assume in 1957 the family's net worth was $100 million—even so, then one of the great American for-

Rob Candal/Picture Group

tunes. If they had invested the money in the Dow Jones industrials, it would be worth well over $600 million today. But the current estate is worth just about half that. The Kennedys have been consuming capital at such a rate that the fortune will not last far into the next century.

Neither family members nor the hired managers who run Joseph P. Kennedy Enterprises, the family office in New York, would talk specifically about the fortune or about family money management. But from a few interviews with individual Kennedys and scores of interviews with business associates, money managers and real estate experts, a picture emerges of money managed by caretakers and neglected—except in the spending of it—by most of the owners.

With the Merchandise Mart complex composing the bulk of it, the Kennedy fortune is clearly still going downhill. After booming for nearly a decade, the Mart is hitting tough times. The Mart was old Joe's crown jewel, created from some of the cash, credit and political influence he built up in his heyday.

As a businessman and investor, Joe Kennedy liked to bet on sure things. He bought and sold stock as an insider, profiting from friendships and knowledge to plunge into Wall Street pools and manipulate such stocks as Chicago Yellow Cab and Libbey-Owens-Ford Glass.

His liquor fortune was, notes Richard Whalen, founded on political influence. As Prohibition was on the way out, Joe Kennedy used James Roosevelt, FDR's son, to get access to those who controlled Scotland's distilleries. Some say Kennedy, returning with distribution rights to brands such as Haig & Haig and Dewar's scotch and Gordon's gin, dumped young Roosevelt and proceeded to build Somerset Importers into a force in the liquor business. He sold it in 1946 to Renfield Importers for $8 million—maybe $100 million today if invested in the Dow.

The Mart was another insider deal. Kennedy bought it from Marshall Field in 1945, knowing from his government cronies that low-rent government leases were about to expire. Kennedy thought they could be replaced with more lucrative ones. He paid $13 million—only $1 million in cash. He mortgaged out $17 million of his profit, later borrowing another $14 million on the property.

Kennedy was one of the first to benefit from the post-WWII real estate boom. He paid $600,000 for one property at 51st Street and Lexington Avenue in New York that he sold a few years later for nearly $4 million. He once owned the Fahnestock mansion in Manhattan, near the base of today's Helmsley Palace Hotel. He sold it for $450,000, more than twice his cost. When he suffered a disabling stroke in 1961, Stephen Smith, Willie's father, undertook to mind the store. By Joe's death, in 1969, virtually all but the Mart had been sold.

Had the fortune been in better hands, it would have been a different story. For example, before 1952 Kennedy bought land on New York City's 59th Street and Lexington Avenue, part of the plot where Alexander's department store now stands, for $1.9 million ($100,000 down). He sold it later for $6 million cash. A nice profit, to be sure, but Kennedy sold too soon. Today the parcel is worth perhaps $75 million.

But if the Kennedys have lost the knack for making money, they haven't lost the knack for living well. Back in 1946 Joe lectured his son Jack, then a freshman congressman, for spending $50,000 a year on "incidentals." Jack's "incidentals" cost the equivalent of what ten typical American families earned that year. And the family continues to live well, with houses in Palm Beach, Hyannis Port, Southampton and McLean, Va.

And the payoffs! In *The Kennedys,* by Peter Collier and David Horowitz, Tip O'Neill recalls that Massachusetts gubernatorial candidates expected to meet with Joe—and walk away with suitcases filled with $50,000 in cash.

The Kennedy fortune is largely held by trusts set up in 1926 and 1936—a tax shelter generally no longer available. Kennedy originally appointed old cronies as trustees. As the years passed they were succeeded by Kennedy family and friends, among them Thomas Watson Jr. of IBM; former cabinet member Robert McNamara; and Boston real estate man John Fallon, a close friend of Stephen Smith's. The trustees managed prudently and cautiously. Which goes to show that caution isn't the best policy in an inflationary environment.

These trustees will oversee investments until all of Joe's children but Jean, 63, and Edward, 59, die. Then the trusts terminate and the principal is distributed. At that point, nothing more than sentiment will bind the family—a glue history shows to be weak.

Thomas J. Walsh managed the family fortune from 1952 to 1980. For now, says Walsh, the trust income is split among Rose, her five surviving children and the children of John F. Kennedy and Robert F. Kennedy. Many depend on Joseph P. Kennedy Enterprises to monitor the family's income. "That office does all the details," recalls a former political associate. "It was always, 'Call Steve [Smith]' 'Get Steve to take care of it.' " Joe's son-in-law Stephen, married to Jean, died last year.

Marc Romanelli/Image Bank

The Merchandise Mart in Chicago

The Kennedy fortune's principal asset, it can no longer keep family members in the styles to which they have become accustomed.

Now retired, Walsh describes how the office operated. According to Walsh, when a Kennedy heir signed a check, the bank would route the statement to the family office. No worry for a Kennedy about a bounced check or keeping a credit card balance up to date.

Today, as in Joe's day, a staff of about 15 produces comprehensive monthly statements for family members, prepares tax returns, insures the family jewelry and occasionally even sees to a driver's license. Long-term employees for the most part, they do not mingle with the family but toil in the quiet obscurity of a file-cabinet-filled office.

The late Steve Smith impressed business associates and bankers with his savvy. But he wasn't just the business manager; he handled the family's personal affairs as well. It

was Smith who, after Ted Kennedy's car accident at Chappaquiddick, handled the press and the local police investigation. He was no doubt sorely missed during his son William's indictment in Palm Beach last spring.

With Smith gone, no one in the family plays the central role in Kennedy business affairs. But even Smith was more interested in politics than business. He helped manage Robert Kennedy's 1968 presidential campaign and Teddy Kennedy's 1980 run. Meantime, would-be pols dropped in to tap Smith's political wisdom. The subject of business rarely came up. Longtime friends like historian Arthur Schlesinger, who often dined with Smith and his wife, seldom heard him speak of it.

Smith left the day-to-day management to Joseph Hakim, 43, an Egyptian-born Wharton M.B.A. Hakim, president of Kennedy Enterprises since 1980, joined after a brief stint at Arthur Andersen, where he had audited the family office books. Until Hakim came on board, the

Kennedy office was still using hand-written ledgers rather than computers.

Like his predecessor, Hakim was no investment professional. According to a family wealth adviser, the management of the modest portfolio of tax-exempt bonds and blue-chip stocks was turned over to Citibank's private banking department. In 1980, as the great bull market in equities was about to begin, just $3 million of that portfolio was in stocks, the rest in tax-exempt securities, with income distributed to family members.

The real estate business suffered from a similar lackadaisical approach. The trustees took in rental income but spent virtually nothing to maintain the Mart. In 1983 a Chicago paper reported that a Mart tenant had complained that the manager had used $1.4 million in Mart funds to renovate his own property and that a grand jury was investigating. Evidently, the matter was quietly dropped.

Meanwhile, developers Trammell Crow and John Portman built marts in Dallas and Atlanta that lured tenants and trade show business away from the Kennedys' center. New high-tech showrooms in the Pacific Design Center in Los Angeles and the Atlanta Apparel Mart attracted other Mart tenants and shoppers.

Smith made a few half-hearted responses. After adding the Apparel Center in Chicago, he built a smaller design center in Washington, D.C. in 1983, and two years later briefly joined the bidding contest for a publicly traded mart in North Carolina. But his biggest task was refurbishing the Mart. Its exterior hadn't been cleaned in 50 years. The air-conditioning was so poor, says one frequent visitor, that the temperature was often 10 degrees warmer than outdoors—a problem that cost $15 million to fix.

By the late 1980s, a sale seemed simpler than the full-scale renovation the property required. The family floated an asking price of $450 million, according to a Chicago broker, but no one would meet it.

So Smith ended up spending $150 million for renovation that included building a bridge between the Mart's two buildings, installing new lighting and a $50 million retail mall. But even with that fixup the Mart's future is questionable. Some tenants are reconsidering their costly leases: "We pay $28 a foot for about 28,000 square feet," says real estate manager Matt Duggan at Herman Miller, a leading office furniture manufacturer. "When our lease comes due next year, we won't be taking that much space or paying anything like that."

Next month the retail mall, the Shops at the Mart, is scheduled to open. JMB, the mall experts who are leasing and managing the site, argue that the business men and women who pass through the Mart will provide a good customer base. They had better. The mall's site is a good mile from the part of North Michigan Avenue where tourists and Chicagoans are used to shopping. Meanwhile, the mall's anchor, midwestern retailer Carson Pirie Scott, filed for reorganization in August.

At last a Kennedy shows some interest in learning the family business. He's Robert's son Christopher, 27, vice president of marketing at the Mart. Chris Kennedy is working toward an M.B.A. at Northwestern University's Kellogg School. If he makes it, he says, he will have the only M.B.A. in the family. It's an open question whether he inherited any of old Joe's drive and toughness.

Many of Chris Kennedy's siblings and cousins show scant interest in augmenting their patrimony. Some, like Patrick, a Rhode Island state legislator, and Joseph, a Massachusetts congressman, are in politics. Some are dedicated to good works. Very Special Arts is Kara Kennedy's pet program; it works with disabled people. Robert Sargent Shriver, whose interest in business dates to his college thesis on the Mart, left James Wolfensohn's investment banking boutique to work with his parents at Special Olympics Productions, an organization devoted to the retarded. He continues to do venture capital investments on his own.

The Kennedy family—like many of the leftish political practitioners it has inspired—seems to have forgotten, if ever it realized, the primary social fact of our time: Good works require wealth. A society that neglects wealth creation cannot deal with poverty and other social ills. Neither can a family. ■

The slippery slope of

EVER EAGER to kick a gift horse in the teeth, America's intellectuals look back with a sneer at America's longest peacetime boom. To listen to these intellectuals you would think The Forbes Four Hundred was packed chiefly with sleazy arrivistes teetering on stilted kingdoms of junk. "Behind every great fortune," goes the hallowed cant, "stands a great crime," and The Forbes Four Hundred seems to be the scene of it.

These alleged crimes didn't go unreported, thanks to the U.S. Attorney, Pulitzer-seeking newsmen, directors such as Oliver Stone, the *Wall Street Journal* and the rest of the media constabulary. The miscreants on our list sweated under the fish-eye lenses of *Vanity Fair, People Weekly* and *M inc,* which peered pruriently into the shadowy raunch of the Palm Beach Au Bar and the poolside cabins at the Beverly Hills Hotel. The only thing wanting was the Coppola touch to unveil a villainous chain of command reaching from the White House and the Vatican to the CIA and South Africa, from Drexel Burnham to the Bay of Pigs and the grassy knoll. Come to think of it, we did have the Coppola touch: the *Godfather* movies, which used the Mafia as a metaphor for business.

By George Gilder

The belief that all wealth comes from stealing may be popular in prisons and at Harvard and in Georgetown's bars. It's a hypothesis comforting to a certain class of young professionals, but there are certain problems when you try to make that fashionable belief jibe with history. Under the wealth-is-theft thesis, the Gilded Era, the Roaring Twenties and the Roaring Eighties all emerge as mere waves of crime swelling toward an inevitable crash. The trouble with the thesis is that these eras also turn out to be the periods of greatest U.S. economic growth and progress.

Still, we are told, The Forbes Four Hundred is obscene. The obscenity is not mere wealth alone; it is wealth in the face of hunger and homelessness. Wealth creates poverty.

But wealth does not create poverty. It creates prosperity. The Eighties—that era of "greed" and "obscene wealth"—created more jobs and housing and more spending by the poor than ever before seen, and broke all records for charitable giving. America's media focused obsessively on a few thousand homeless and a few million people slipping, often briefly, below a poverty line—and even down there Americans generally enjoyed a living standard that would signify wealth in most of the world.

CREDITS—LEFT TO RIGHT David Benedict; Dianne Bagby/SABA; AP/Wide World; AP/Wide World; Albert Ferreira/SIPA

The Forbes Four Hundred had a lot of turnover in the 1980s. That's the sign of a healthy economy. A stagnant Four Hundred is a sign of a stagnant economy.

wealth

America's poor of 1988 commanded purchasing power above the middle class of 1955.

America's poor today on average consume more food, housing, automobiles and bathrooms than Japan's average citizen. Poor adults who receive Medicaid get more money for medical care than the average Japanese citizen spends.

For any truly compassionate person, the times to be cherished are the eras of wealth creation—like the Eighties. Yet most of the media studiously avoid mention of all this economic progress, concentrating instead on a by-product, the creation of new fortunes. The media also tend to ignore the fact that great fortunes are not insulated from risk: The same tides of economic change and progress that were creating these new fortunes were also destroying old ones. Since 1982 the economic and technological progress unleashed by supply-side policies have ousted some 60% of the incumbent tycoons from The Forbes Four Hundred.

There are, basically, two kinds of wealth: tangible and financial. Tangible assets already exist: real estate, buildings, mineral deposits, farmland, works of art, stockpiles of commodities, wares of the past. Financial assets consisting of stocks, bonds and other securities represent not so much tangible wealth as a pledge of future production.

The 1980s saw a drastic turn from retrospective to prospective wealth, from owners of oil wells and office buildings to the prospectors of future concepts like computer software and cellular telephones. The cycles between these two forms of wealth respond to public policy. Times of inflation and high taxes favor existing wealth over new wealth, tangible assets over financial assets, collectible capital over productive capital. Tangibles tend to yield a relatively untaxable and uninflatable flow of benefits; housing, jewelry, art and leisure offer mostly untaxable returns. Securities tend to yield a taxable and inflatable flow of income on a principal that dissolves with the

decline of the currency.

Put it this way: Financial assets do best in times of low inflationary growth. Hard assets do best in times of high inflation and high taxes. In the 1980s a sudden shift between these two kinds of assets shook The Forbes Four Hundred. More than 50 oil and real estate moguls, hard-asset people, dropped from the ranks. The losers included the Hunt brothers and Fred Trammell Crow of Dallas, and Donald Trump and Arthur Cohen of New York. These fallen moguls were replaced by a covey from computers, software, cable television and cellular telephones—people such as Bill Gates, Paul Allen, Michael Dell and Craig McCaw.

Because any list of regnant fortunes will lag the economy by a few years, the figures in computers, software and cellular phones represent a vanguard that will mature in the late 1990s, when the cable TV tycoons will be fighting for their lives with the telephone companies, and a vanguard from biotech could be racing to the fore.

That's why some people spend a relatively short time on The Forbes Four Hundred. H. Wayne Huizenga of Blockbuster Entertainment, for example, arrives in 1991 just as his concept of videocassette superstores comes into serious jeopardy from ascendant vendors of "pay-per-view" films. The cable TV magnates, such as Amos Hostetter Jr., in turn could face their nemesis in fiber-optic nets of computers.

In short, as the economy goes, so goes The Forbes Four Hundred. With inevitable lags and anomalies, vendors of inflation hedges and tax havens were pushed off The Forbes Four Hundred in favor of entrepreneurs of the information age and its financiers. A few of the old rich got pieces of the new wealth: Land and potato baron John Richard Simplot, for example, invested $30 million in Micron Technology Inc., which helped keep him among the Four Hundred during the bust in farmland and commodities. Bill Harris Hayden surged toward the list after he sold out of Texas real estate in 1982 and invested his profits in CompuAdd, now an ascendant mail-order computer manufacturer.

These stories are rare, however. The techniques that favor wealth creation in one era rarely work in another era. A Seventies knack for borrowing money and buying rigs and land rarely equips a tycoon and his bankers to manage the intricacies of fiber optics and cellular phones, DNA and C++, cable programming and personal computer operating systems. The shift from matter to mind, therefore, brings a huge hemorrhage of existing wealth. Many of the bankers, savings and loan magnates and other financiers of the late 1970s and early 1980s, who sought safety in a tangible collateral of land, buildings and mineral deposits, suffered dearly in the subsequent crash of solid objects.

The 1980s saw a drastic turn from retrospective to prospective wealth, from owners of oil wells and office buildings to the prospectors of future concepts like computer software and cellular telephones. The cycles between these two forms of wealth respond to public policy.

The banking failures of the 1980s came in large measure from a failure to understand how the basis of wealth was changing from the physical to the mental. Most American financiers developed a poignant faith in physical wealth. Wasn't the world running out of food and fuel, land and living space? These things were priceless. Money borrowed to buy them could be repaid through tax-deductible depreciation flows while the underlying assets would rise inexorably in value. Where was the risk in such loans?

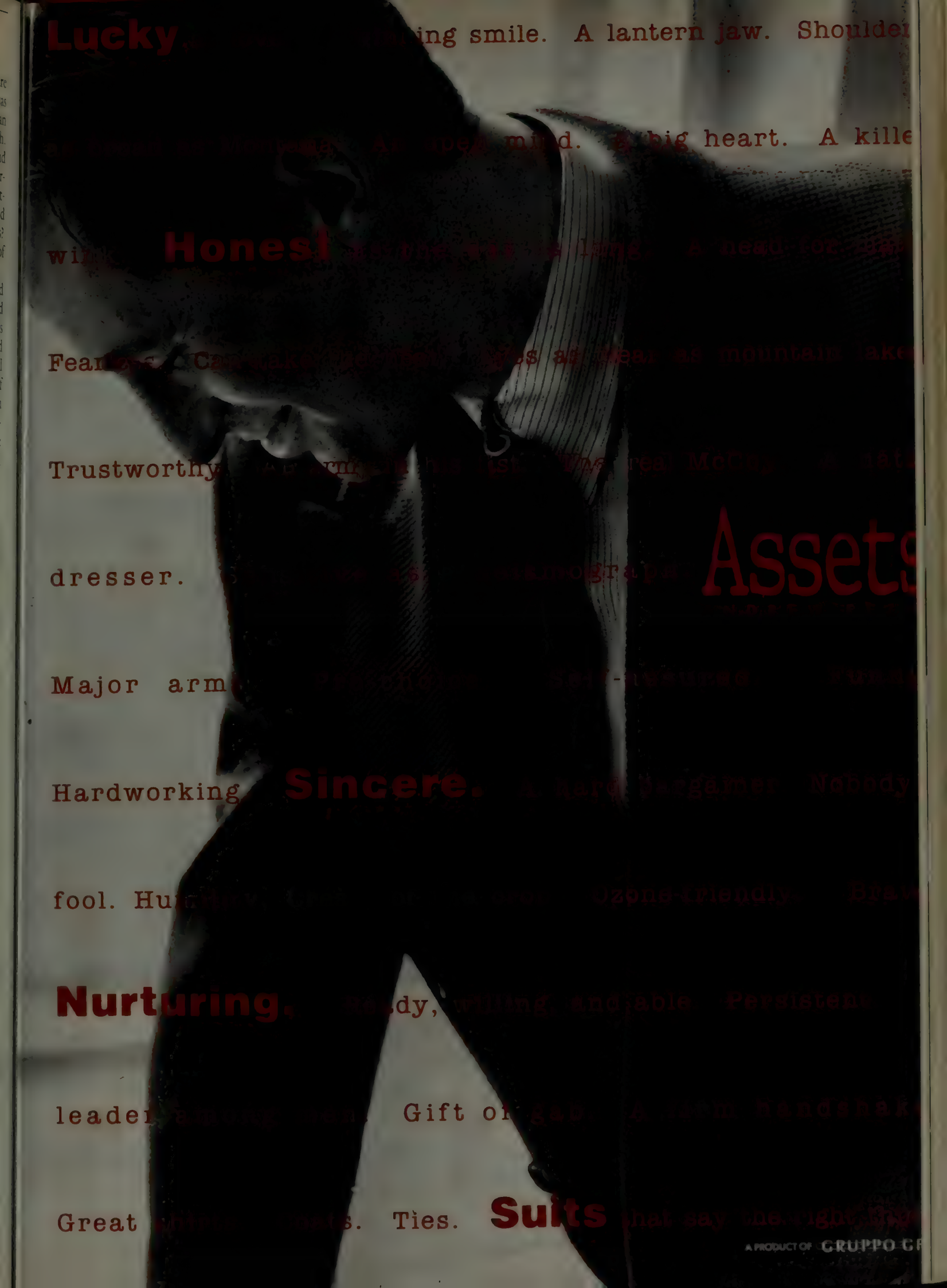
As it turned out, there was plenty of risk—and plenty of broken banks resulted.

While banks and the rich were putting their faith in hard assets, more imaginative financiers were finding they could get rich merely by raising money for able entrepreneurs with good ideas but few hard assets. From Ted Turner and Craig McCaw to Bill Hayden and Amos Hostetter—all devoid of physical collateral—most of the real venturers of the period were financed with junk bonds, not through conventional sources. Some 40% of all the funds supporting the computer and semiconductor industries in the late 1980s, for example, came from high-yield securities in various forms.

Then, in the mid-1980s, other fortunes emerged when thousands of corporate chief executives sought desperately to discard the hard assets and commodities purchased in the 1970s and early 1980s as inflation hedges. In 1985 alone 500 major manufacturing companies shed some $200 billion of such assets—timber rights, mineral deposits, farmland, commodity businesses, commercial buildings, often even selling and leasing back their own proud headquarters.

Firms that resisted shedding unnecessary hard assets found themselves beset by leveraged-buyout entrepreneurs and raiders eager to perform the necessary amputations. These operations were sufficiently messy and unpopular among powerful managements and their political supporters that only a few people were brassy enough to undertake them. These men—Milken, Kravis, Perelman, Kluge, Peltz, Steinberg—leapt high on the lists of The Forbes Four Hundred. Joining them today on the list is Reginald Lewis, a Milkenesque dealmaker, who recently won his battle to sustain the debt of a restructured TLC Beatrice International Holdings and became the only black currently on The Forbes Four Hundred.

But financial dealing was far from the only source of new wealth in recent years. The personal computer industry alone generated more than 10,000 new companies, increased the number of computer systems two-hundredfold, and created an entire new technical culture in digital electronics, with the number of computer scientists rising 43% a year throughout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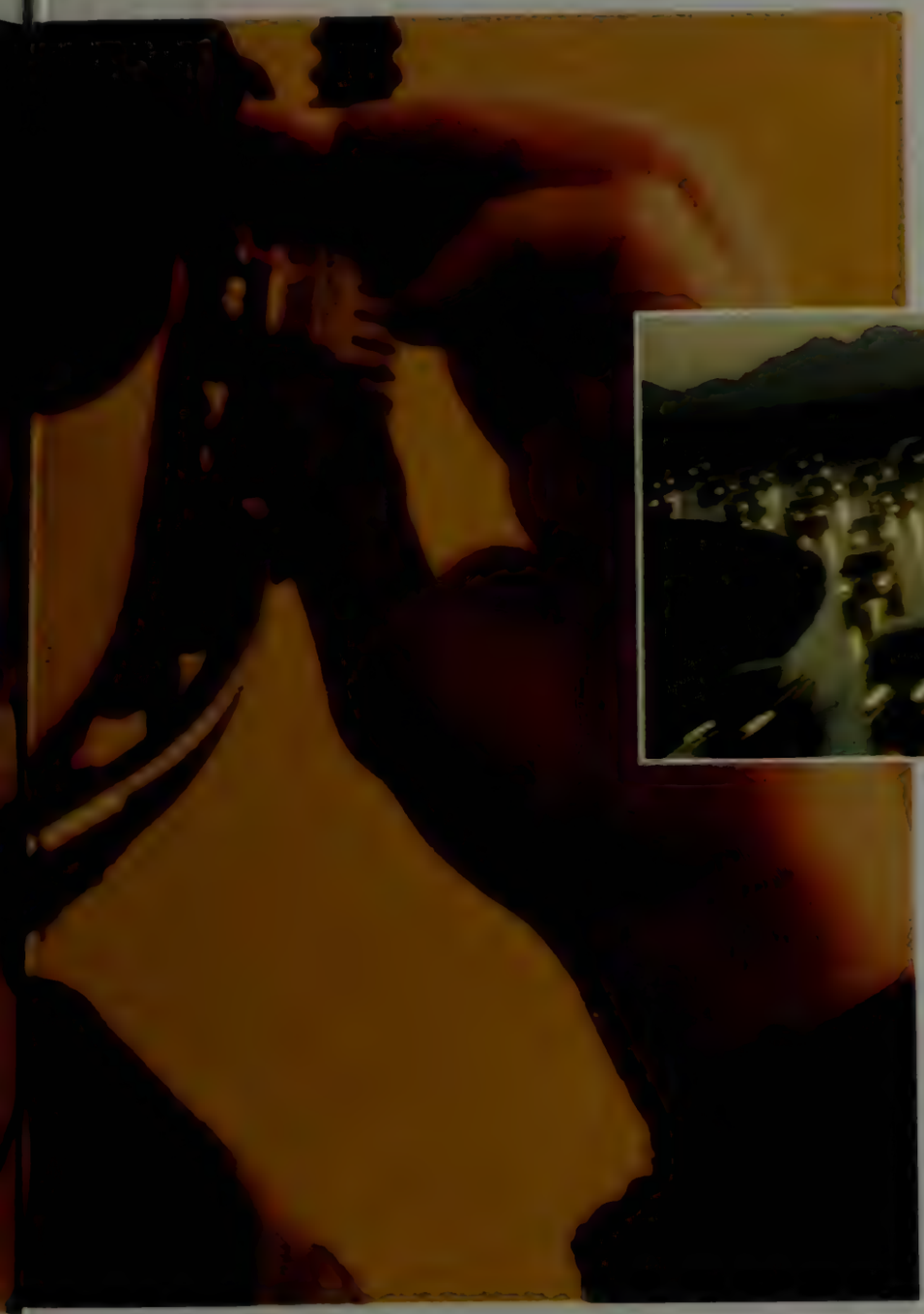

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the decade.

Joining The Forbes Four Hundred were William Gates III of Microsoft Corp. and Lawrence Ellison of Oracle Systems Corp., and this year Michael Dell of Dell Computer Corp. and Robert Levine and Craig Benson of Cabletron Systems Inc., a computer networking firm.

The changes in The Forbes Four Hundred were only one manifestation of the tremendous changes wrought in the 1980s. From the 1982 trough to the 1990 peak U.S. exports surged 93%, capital equipment spending increased 76%, manufacturing output climbed 48%, nonfinancial gross domestic product rose 39%. Jobs rose some 20%, including a 30% rise in black employment and a 52% surge in Hispanic employment. Between 1982 and 1987 the number of businesses owned by blacks rose by more than one-third, and their receipts more than doubled.

Cause for rejoicing? Not among the American highbrows. When contemplating the prospects for the 1990s, highbrows and liberal pols shun all concern with technology, enterprise, life spans and real incomes in favor of a fetish for "fairness" and a yen to punish success. Turning reality upside down, they castigate the 1980s for materialism and greed. They prophesy a condign crash and depression for the 1990s, caused not by the increasing policy mistakes of this decade but by the policy successes of the 1980s.

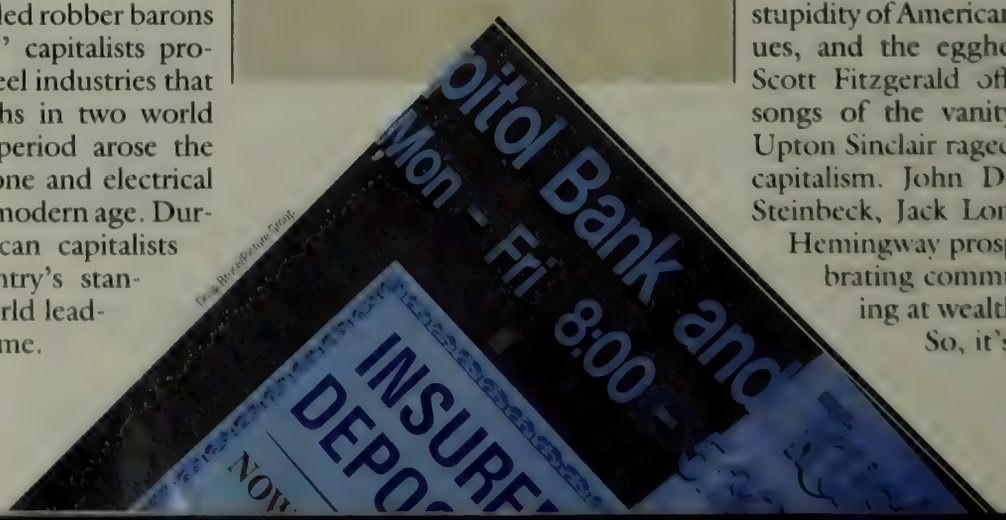
Because the economy thrived in the 1980s, they say, we will pay the price in the 1990s—just as the boom of the Roaring Twenties was followed by the Great Depression of the 1930s. Socialist scholars such as John Kenneth Galbraith and his followers see a capitalist morality play of greed and grim deserts, from gorged riches to anguished wretches.

In *The Politics of Rich and Poor,* Kevin Phillips predicts that public outrage will punish the rich and their political friends for these "excesses."

Phillips ignores that this latest period of "excess" brought huge benefits to the American people in jobs, opportunities and new technology. He counts as periods of portentous excess virtually every period of high creativity and progress in the last 100 years. (He does conveniently omit the upsurge of the 1960s, which was, like that of the 1980s, driven by tax cuts and rising revenues. But then the 1960s are shielded from opprobrium by the liberal patina of Camelot.)

Phillips fails to recognize that the Gilded Age of so-called robber barons and other "greedy" capitalists produced the oil and steel industries that fueled U.S. triumphs in two world wars. During this period arose the automobile, telephone and electrical technologies of the modern age. During this era American capitalists brought their country's standard of living to world leadership for the first time.

The shift from matter to mind brings a huge hemorrhage of existing wealth. Many bankers and S&L magnates of the late 1970s and early 1980s who sought safety in the tangible collateral of land, buildings and mineral deposits, suffered in the subsequent crash of solid objects.



In predicting punishment for the Eighties wealthy, Phillips and the other liberals embrace a central myth of the left that presents the Great Depression as a purgatory for the avarice of the Roaring Twenties—as the inevitable outcome of the Twenties boom. This argument, however, ignores all of the economic data from the 1920s and 1930s that were carefully assembled by economist Alan Reynolds in a path-breaking 1979 *National Review* article commemorating the crash of 1929.

Reynolds demonstrated that the stock market boom of the 1920s reflected powerful real gains in output, dividends, innovation, real incomes and globalization. Per capita output rose 42% between 1921 and 1929. Life expectancy increased 5.6 years. Rapid advances in telephone technology joined the new business of radio manufacture to provide a spearhead of communications and services to the industrial engines of growth in chemicals, power and steel. The auto industry doubled its production. Foreign trade reached an unprecedented 7% of U.S. economic activity.

The 1920s stock market boom reflected not chiefly a spiral of vain speculation but a surge of productivity and invention. The Roaring Twenties could have foreshadowed not a depression but an era of prosperous creativity that might well have swept through the entire world. Instead, Congress enacted high tariffs with the Smoot-Hawley Act and more than doubled income tax rates under President Herbert Hoover. In a period of deflation, with prices dropping rapidly, real interest rates surged to nearly 20%. Franklin Roosevelt followed Hoover's example with a long succession of tax hikes, monetary blunders and antiwealth regulations. By World War II the top income tax rate had risen to 79%.

Magnifying these mistakes was the entrenchment of Stalin, Hitler and other statist rulers in Europe and Asia. Providing crucial cover for the most vicious tyrants in human history were the world's leading intellectuals, neurotically estranged from the capitalist system that brought them wealth and power.

History repeats. During the 1920s, when capitalism was producing tremendous benefits for the world, our intellectuals were barking at its heels. Sinclair Lewis, a bestselling author of the Twenties, won his Nobel Prize for deriding the mainstay morality and culture of capitalism in *Babbitt, Main Street* and *The Man Who Knew Coolidge.* H.L. Mencken scoffed at the stupidity of American commercial values, and the eggheads cheered. F. Scott Fitzgerald offered his elegiac songs of the vanity of commerce. Upton Sinclair raged at the jungle of capitalism. John Dos Passos, John Steinbeck, Jack London and Ernest Hemingway prospered while celebrating communists and sneering at wealth.

So, it's déjà vu all over

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again. In the 1980s intellectuals felt estranged by the ascendancy of business. With film directors and actors in the lead, leftists presented an unending parade of evil exploiters and sinister magnates, with virtually every tale of cops and robbers ending in the penthouse aerie of some vicious chief executive. In real life, killer CEOs are rarer than whooping cranes, but on television they are ubiquitous. TV took its cues from film, offering an endless morality play in which heroic public defenders and poverty lawyers, renegade cops and prostitutes uncover the depraved plots of what are essentially The Forbes Four Hundred.

All this is, unfortunately, taking its toll on U.S. economic creativity and productivity. Today in America the acids of envy, brewed and stirred by intellectuals, are lapping at the foundations of business, paralyzing investment activity. For the first time in three decades, new business formations have declined for four years in a row, currently standing some 9% below the 1986 level. The U.S. is now destroying the key sources of entrepreneurial finance: venture capital, junk bonds and commercial banks. Since the late 1980s new issues of high-yield securities and bank loans to noninvestment-grade companies have dropped some 90%, while venture capital outlays have sunk by some 40%.

The danger to U.S. living standards today comes not from debts incurred in the 1980s but from policy errors inflicted on the debtors in the 1990s. Debt is dangerous only when assets are declining in value and income is shrinking.

During the 1980s asset values grew far faster than debt. At the end of the 1980s the worth of corporate equity exceeded debt by more than $1 trillion, up from $160 billion ten years earlier. Higher taxes during the 1990s, however, have halted economic growth and asset appreciation, thus transforming a manageable level of debt into a crippling burden for many firms.

George Bush stands on the verge of becoming the Herbert Hoover of the 1990s. Although he has commendably eschewed protectionism, Bush has allowed U.S. taxes on capital to rise to one of the highest levels in the industrial world. A recent study by the London Stock Exchange shows that the U.S. is exceeded only by Canada and rivaled only by Britain in capital gains taxes, with Japan lagging far behind. Only the English-speaking nations significantly tax capital gains at all.

Maybe what we need in this country is a better understanding of wealth. Most people think of *Lifestyles of the Rich and Famous* when they think about wealth. But even if he wanted to, Sam Walton couldn't spend more than a tiny fraction of his wealth. Sam Walton actually lives modestly, but even the most extravagant and flamboyant possessor of a great fortune cannot spend more than a small portion of his income, to say nothing of his wealth.

Most great wealth isn't spent: It is used. Mostly it is used in enterprises that succeed chiefly to the extent that they supply willing customers with valued goods and services. Profits and capital gains reflect not greed but service to others. Taxing this wealth away does not make the poor richer. It makes everybody poorer.

In large part, free economies prosper because the very entrepreneurs who have proved their ability to create wealth win the right to reinvest it. It is not greed but the spirit of enterprise that leads a Forbes Four Hundred figure such as Jack Simplot or David Rockefeller to pursue his businesses into his 70s and 80s rather than retire to a friendly beach.

Greed leads, as by an invisible hand, not to capitalism, but to socialism, as people turn to government to gain wealth without work—wealth that they can neither earn nor comprehend.

Despite discouraging recent trends, all is not lost. There are three powerful and interlinked forces of hopeful change. One is the ever-accelerating information revolution, which during the next decade could produce a thousandfold rise in the cost-effectiveness of computers and fiber-optic communications. The entire information economy will be transformed, creating huge new opportunities for entrepreneurship.

The second great source of hope is the rise of capitalist Asia led by Japan, with its huge entrepreneurial energy, reserves of savings and commitment to the future. Although it would be preferable to have Americans finance their own technologies, the current U.S. hostility to capital means that Japan will probably provide the bulk of U.S. venture funds. It is far better than nothing.

The third great source of hope is the liberation of the communist world, with its deep disdain for the promises of government and its superbly educated scientific elites. The interplay of these forces could impel the global economy into a new upward spiral.

The central drama of economics is not the struggle between rich and poor—their interests aren't all that divergent—but the struggle between the past and the future, between the capitalist drive to invest in new ventures and the socialist impulse to preserve existing jobs, businesses and concentrations of wealth.

When the capitalists win, most people win. The chief losers are other capitalists, since change and growth create turmoil, with the old fortunes fading and the new ones replacing them. When the populist and socialist politicians win, The Forbes Four Hundred fossilizes, changing only slightly from year to year. Here's to a Forbes Four Hundred that has 100% turnover every decade!

Over 50 oil and real estate moguls fell from the list. The losers included the Hunt brothers, Fred Trammell Crow and Donald Trump. They were replaced by entrepreneurs in computers, software, cable TV and cellular phones—people like Bill Gates, Michael Dell, Craig McCaw.

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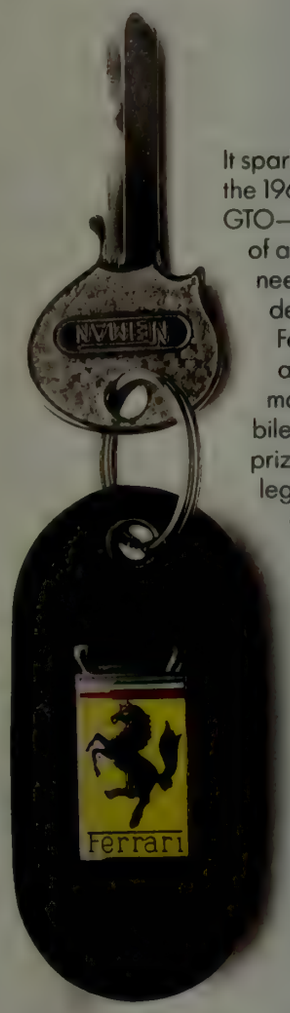

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Consuming conspicuously is becoming more reasonable.

Price break for the rich

By Manjeet Kripalani

AS WE NOTED in these pages last year, a falling dollar is a hidden tax on wealthy people. That's because much of what they buy—from Rolls-Royces to Davidoff cigars—is produced in foreign countries; when the dollar falls against those countries' currencies, the dollar prices of the goods generally rise. During 1989-90 the dollar was weak, and The Forbes Four Hundred cost of living extremely well index (Clewi) rose 11%, double the rise for the U.S. cost of living index.

On the other hand, a stronger dollar is a kind of tax cut for conspicuous consumers. When the dollar is strong, as it has been this year, the price increases of imported goods moderate; some prices even fall. In the last 12 months Clewi has climbed only 3.5%, the smallest rise since we first constructed the index five years ago. The overall Consumer Price Index, by comparison, rose 4.4%. And had we ignored several price increases pushed through in August and September, Clewi would have climbed a mere 2.5%. But France's La Tour d'Argent restaurant and New York's Stanhope Hotel suddenly raised their prices.

Still, there's not much to complain about on the conspicuous-consumption front. Bespoke shirts by London's Turnbull & Asser are £90 each, and handmade John Lobb shoes cost the same as last year in pounds, £1,006. But with the dollar strong against sterling, a dozen T&A shirts cost $1,836, down 5% from last year; the Lobb shoes cost $1,710, nearly $200 less than last year.

Prices of American-made goods and services for the wealthy also seem to be plateauing. A catered dinner at home by Ridgewell's in Washington, D.C. didn't go up a cent, nor did the cost of a tennis court.

One of the worst deals, in terms of price increases, will surprise no one: education, where administrators cannot or will not get a grip on the cost spiral. Tuition, room and board at prep school Groton is up 11%, to $18,900; at Harvard, up 7%, to $22,080.

Almost as bad is another labor-intensive product for which consumers will pay practically anything: health care. A face-lift will set you back 7% more than last year; a stay in a private room at Washington Hospital Center is up 10%, to $713 a night.

Here's something that's slowly becoming affordable again: art. For the first time in three years, Sotheby's art-market trends index has dropped—and it's down a dramatic 21%, thanks not only to the strong dollar but also to the evaporation from the art scene of all those high-rolling Japanese speculators and money-launderers (FORBES, *Apr. 29*).

For those who want to consume conspicuously but don't want to spend more than they have to, things are looking up.

Andy Christie/Forbes

Forbes cost of living extremely well index

	1976 price	1991 price	% change 1990-91
Apparel			
Coat/Natural Russian Sable by Maximillian Fur Co., N.Y.	$40,000	$200,000	none
Dress/Adolfo Couture	950	1,500	none
Loafers/Gucci	89	295	+14
Shirts/1 dozen cotton, Turnbull & Asser, bespoke	448	1,836	-5
Shoes/men's black calf wingtip, custom-made, John Lobb, London	202	1,710	-11
Educational expenses			
School/preparatory, Groton, 1-year tuition, room, board	4,200	18,900	+11
University/Harvard, 1-year tuition, room, board, insurance	5,900	22,080	+7
Entertainment			
Catered dinner/for 40, by Ridgewells, Inc., Wash., D.C.	2,200	5,040	none
Opera/2 season tickets, Metropolitan Opera, Saturday night, box	480	2,250	+9
Food at home			
Caviar/beluga malossol, 1-kilo tin, average retail	283	1,478	none
Champagne/Dom Perignon, case, Sherry-Lehmann, N.Y.	300	947	+7
Filet mignon/7 pounds, Lobel's, N.Y.	50	125	none

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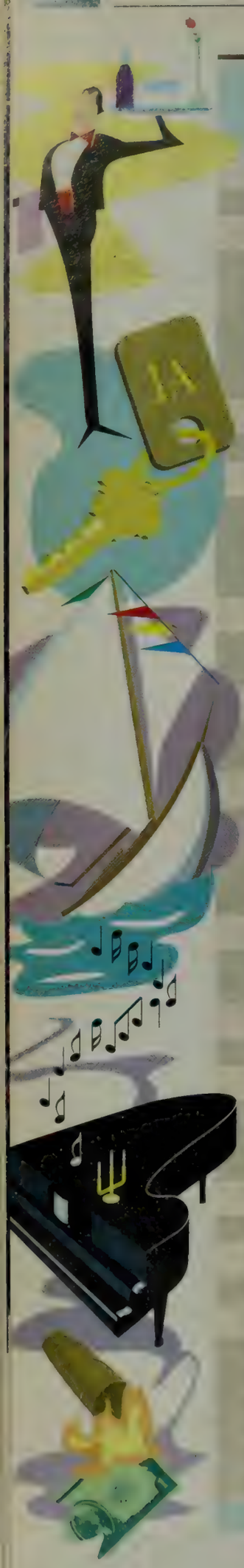

Andy Christie/Forbes

Forbes cost of living extremely well index

	1976 price	1991 price	% change 1990-91
Food away from home			
Dinner at La Tour d'Argent/Paris, estimated per person (incl. wine and tip)	$34	$175	+7
Home furnishings			
Piano/Steinway & Sons, concert grand, Model D, ebonized	13,500	57,200	+7
Flowers in season/arrangements for 6 rooms, changed weekly by Christatos & Koster, Inc., N.Y., per month	1,400	5,070	+9
Sheets/Set of embroidered silk, by Pratesi, queen size	1,218	5,090	none
Silverware/Kirk Stieff Co., Colonial Williamsburg Shell pattern, 4-piece place setting, for 12	1,341	3,000	none
Lodging while out of town			
Hotel/2-bedroom suite, park view, The Stanhope, N.Y.	333	850	+13
Medical care			
Face-lift/American Academy of Facial Plastic & Reconstructive Surgery	4,000	8,000	+7
Hospital/VIP, Washington Hospital Center, Wash., D.C. 2 bedrooms, living room, concierge, security, gourmet meals	325	713	+10
Psychiatrist/Upper East Side, N.Y., 45 minutes, standard fee	40	150	none
Personal services			
Lawyer/established mid-Atlantic firm, partner, estate planning, average hourly fee	80	300	+5
Spa/The Golden Door, California, basic weekly unit	1,250	3,750	none
Toilet goods and personal care appliances			
Perfume/1 oz., Joy by Jean Patou	100	300	+9
Sauna/by Helo, Inc., 6x8 feet, 8-person, cedar, stained-glass window	5,000	9,000	none
Sporting goods			
Motor yacht/Hatteras 60 (current model)	231,097	1,141,652	+5
Sailing yacht/Nautor's Swan 65	384,300	1,700,000	none
Shotguns/pair of James Purdy & Sons, at Griffin & Howe, N.Y.	20,000	85,850	–2
Thoroughbred/yearling, average price at Keeneland select sales	67,300	319,578	–9
Sports facilities			
Swimming pool/Olympic, standard site	180,000	546,000	+4
Tennis court/clay, standard site	25,000	47,000	none
Toys and hobbies			
Train set/G gauge, by LGB, FAO Schwarz, N.Y.	178	550	none
Transportation, private			
Airplane/Learjet 35A, standard equipment, certified 10 passengers	1,800,000	4,625,000	+5
Helicopter/Sikorsky S-76, full executive options (introduced 1978)	1,300,000	6,300,000	+5
Automobile/Rolls-Royce Silver Spirit (formerly Silver Shadow)	38,000	151,700	+8
Transportation, public			
Airline ticket/British Airways Concorde, round trip N.Y.-London	1,512	8,334	+9
Utilities and public services			
Telephone call/10 minutes, AT&T, N.Y.-London	12	9.90	none
Other goods and services			
Cigars/Cuban, box of Davidoff No. 2, Toronto	186	786	+18
Magazine/FORBES, 1-year subscription	15	52	none
Suitcase/Loewe, Black Napa leather, 27 inches	739	1,595	+19
Watch/Patek Philippe classic man's gold, leather strap	2,450	8,500	none
Purse/Hèrmes, "Kelly Bag," calf, 10 inches	550	3,495	+11
Sotheby's Art Market Trends Index/Basis: 1975=100 ($)	111	840	–21

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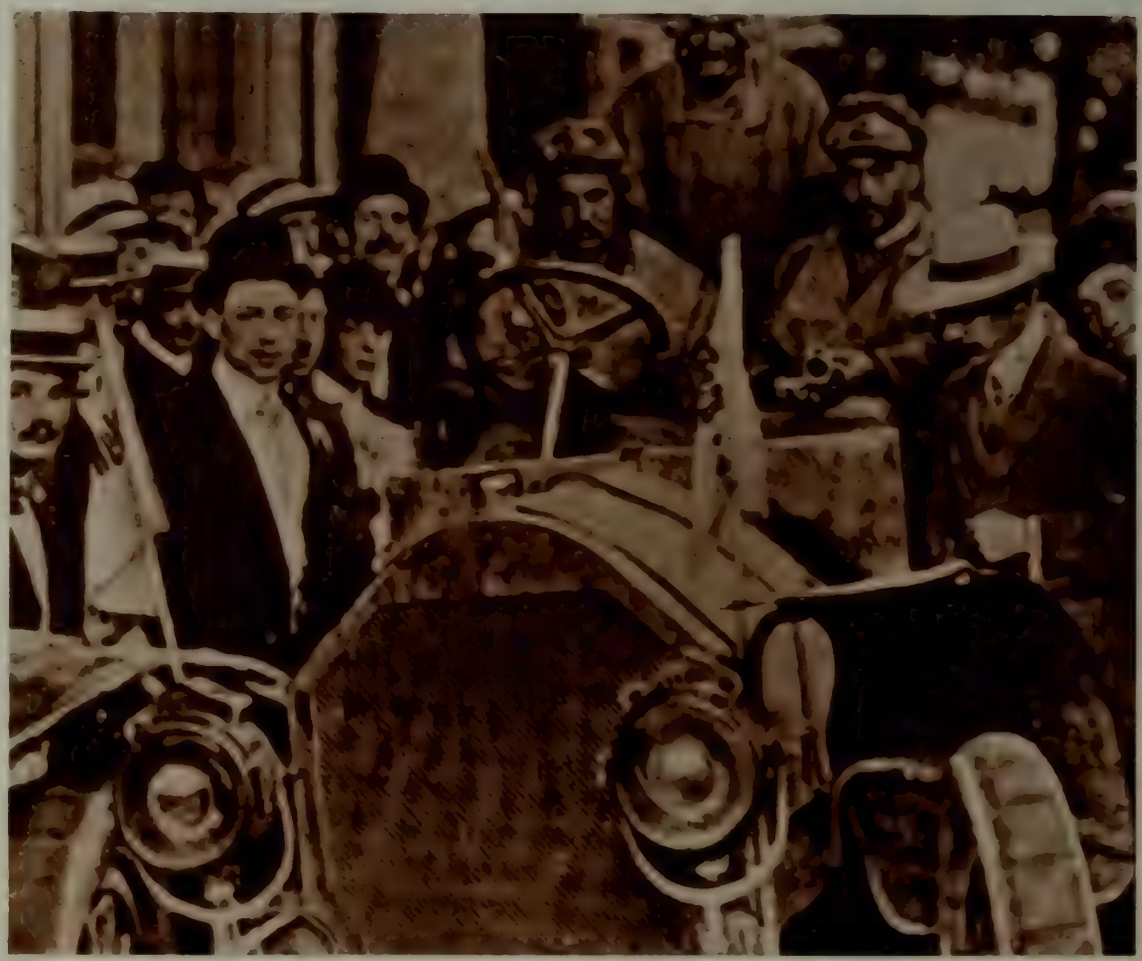

One of the favorites in the The Great New York to Paris Race was a motor car named Protos. It was built by a company named Siemens.

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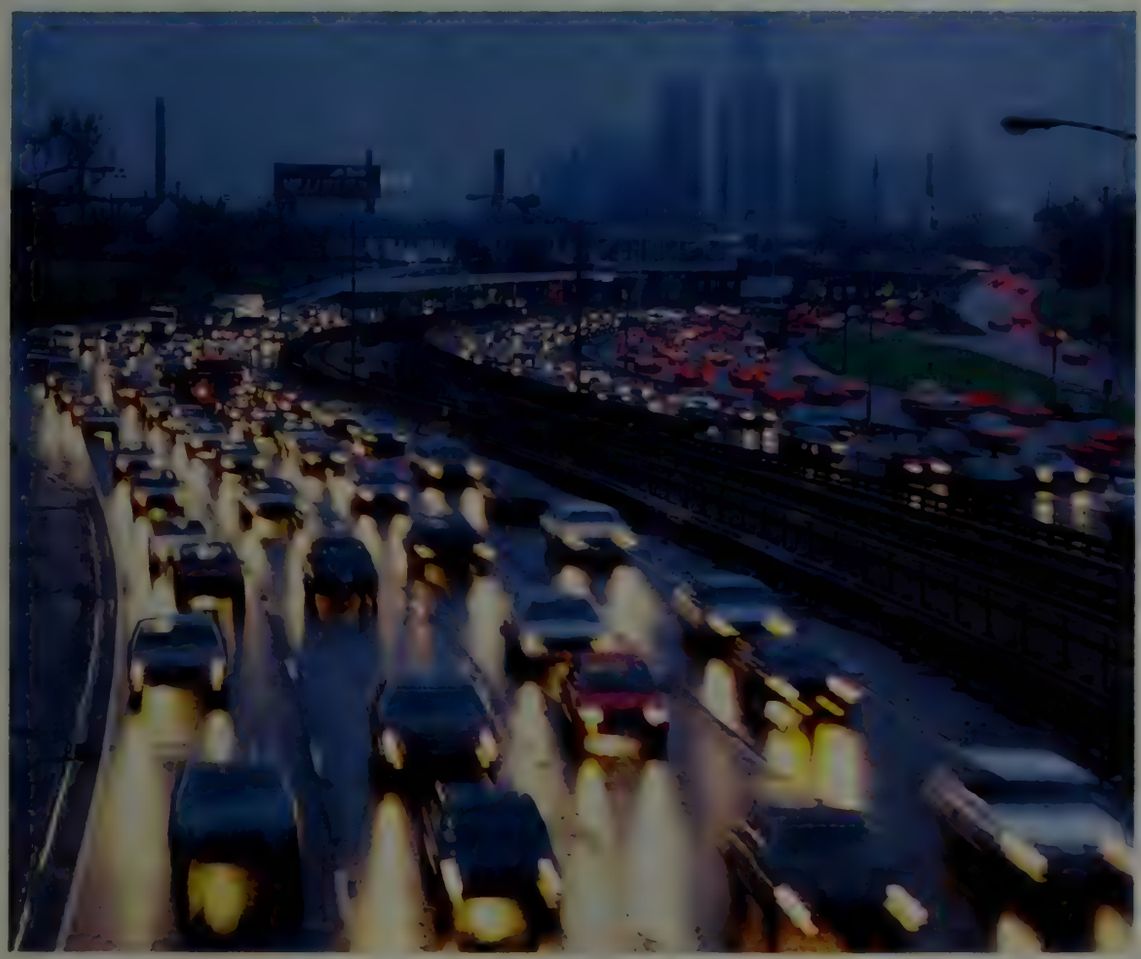

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Divorce Forbes Four Hundred Style: It's a tough, tough way to make a fortune. Our advice: Marry a guy you can stand to stay married to for life.

$plit$ville

By Gail Buchalter

AFTER STUDYING what are arguably the biggest American divorce settlements of all time, FORBES concludes that divorce is one very tough way to make a buck. There are some relatively amicable splits—Frances Lear's from Norman, for example, or Anne Bass' from Sid *(see p. 302)*—but many are drawn-out legal battles where each spouse is determined to harass and haggle the other into submission. Any prospective gold digger would be well advised to make sure she or he has the will to persevere.

Wealthy entrepreneurs often see their divorces as another interesting business challenge and rise to the occasion with considerable energy and creativity. Consider thrice-divorced, self-made billionaire Jack Kent Cooke. In 1976 Cooke's first wife, Jean, asked for a divorce. They had been married for over 40 years and lived in California, a community property state. Jean's attorney at the time, Arthur Crowley, recalls that after Jean Cooke dismissed her husband's offer of $1 million as "peanuts," Jack moved his official residence from Los Angeles to Las Vegas, to take advantage of Nevada's more favorable community property laws. "So Jack formed three or four new corporations in Nevada and transferred his holdings to them," explains Crowley, who rejected Cooke's later settlement offer of $5 million.

Randy Bauer/Ron Galella

Pat Kluge
Under $1 million in cash a year and a (nice) roof over her head.

Next, Jack, who was then in his mid-60s, claimed he was too sick to be deposed. "I arrived at his house and found him in bed, with a doctor monitoring his vital signs," attorney Crowley remembers. "But he was well enough to keep lowballing us."

Crowley served Jack in Nevada anyway and, despite all of Cooke's clever legal maneuvers, managed to win California jurisdiction of the case. In 1979 Superior Court Judge Joseph A. Wapner (of *People's Court* fame) granted the Cooke divorce. After a grueling nine-day-and-night settlement conference Jean Cooke received $42 million, according to Crowley. The settlement was based on Cooke's holdings in Teleprompter Corp.—the cable television company—and the Washington (football) Redskins, the Los Angeles (basketball) Lakers, the Los Angeles (hockey) Kings and Los Angeles' Forum. In addition Jean got the couple's Bel Air mansion. But she had to work hard for every penny.

One of the major hazards for a woman determined to marry her way to wealth is failing to nab her catch early, when he is poor or naive enough to marry unprotected by an airtight prenuptial agreement. (Yes, men, too, marry for money.)

Gettings

Carolyn Farb
After the wedding invitations went out, the prenup arrived.

Patricia Kluge, 43, recently divorced third wife of the richest man in America, 77-years-young John Kluge, is believed to have signed a prenup when the couple married in 1981. It's estimated Pat gets under $1 million in cash a year, in addition to a roof over her head. The emolument's present value is around $16 million to $17 million—pretty small change considering her former husband's estimated net worth of $5.9 billion.

Carolyn Farb found out about prenups in an unpleasant way. She was Houston real estate developer Harold Farb's second wife. (Farb was on The

HARRY WINSTON

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Forbes Four Hundred in its early years, before the oil bust laid Houston property low.) The wedding was back in 1977; she was in her early 30s; he was 54. "Harold had been married for 25 years, and he brought a lot of baggage with him," recalls Carolyn. The prenuptial agreement arrived for Carolyn's signature after the wedding invitations had been mailed out. "It was," she says, "a bad way to start the marriage."

When Harold filed for divorce in 1982, FORBES estimated his net worth was over $200 million. (Harold first filed for divorce in 1981, but the couple reconciled.) Under the prenup, Carolyn was entitled to only $1 million. But maybe luck was on her side after all. She fought, and the courts voided the agreement on the grounds that it was signed three years before Texas legalized such contracts. Although Texas is a community property state, Carolyn received a modest $20 million, the bulk of which was in stocks, bonds and real estate. She also got to keep two Rolls-Royces, a Jaguar, furs, jewelry and the River Oaks mansion where she still lives. And Harold? Along with the Texas economy, he is rebounding these days.

Schreiber/US Press/Sipa

Soraya Khashoggi
She fought Saudi Arabian jurisdiction after she met Marvin Mitchelson.

What about New York real estate developer Donald Trump's divorce? Ivana's settlement with Donald was ultimately $10 million cash, a Connecticut country estate, $4 million subject to her vacating a Manhattan apartment and $350,000 a year in support.

It used to be that for men, a Saudi Arabian divorce was far more effective than a Nevada divorce, assuming one could claim Saudi jurisdiction. An interesting case is Adnan Khashoggi, the Saudi arms trader. In 1961 Khashoggi was a struggling 26-year-old businessman; Briton Sandra Jarvis-Daly was a teenager on holiday in Paris with her mother. A year later, Adnan and Sandra married. She changed her name to Soraya, took up the veil and the Muslim religion and moved to Saudi Arabia, where they lived in a modest flat in Riyadh. Then the arms dealer began amassing his fortune. After years of globe-trotting and producing five children, the honeymoon was over. When Soraya accused Adnan of philandering, he tried to divorce her by proxy in Saudi Arabia in 1977, by having someone stand in for him in court.

Soraya married an Englishman, Richard Coombes, later that year. In 1979 Marvin Mitchelson, the high-profile Los Angeles divorce lawyer, was contacted by her solicitor. Several months later, Mitchelson advised Soraya to annul the Coombes marriage, which she did.

In 1980 Mitchelson filed for California jurisdiction. Adnan Khashoggi challenged this move. Two years later the Los Angeles Superior Court held that the California court did not have jurisdiction. While Mitchelson was appealing this ruling, Soraya and Adnan quickly reached an out-of-court settlement. Mitchelson characterizes it as "a good settlement, among the better settlements I've had." The *Guinness Book of World Records* reported Soraya's take to be $800 million, but this is surely an exaggeration.

It should be obvious by now that community property rules do not guarantee a clean 50-50 split. Houston's Fayez Sarofim is an extraordinary money manager worth some $320 million. For years he was also a master at juggling two relationships. One was with his wife of well over 20 years, Louisa Stude Sarofim, who was the adopted daughter of Herman Brown, founder of Brown & Root (one of the world's largest engineering and construction firms). The other was with one of his office workers, Linda Hicks, recognized to be the mother of three of his five children.

Louisa Stude Sarofim
Her husband managed money in addition to another relationship.

Over the years Fayez Sarofim's investing talents multiplied his and Louisa's resources tremendously. Sarofim was listed on The Forbes Four Hundred at $280 million in 1989, the year Louisa filed for divorce. Yet, even though Texas is a community property state, when the settlement was finalized in June 1990 Louisa reportedly received $100 million. (Shortly after the divorce, Fayez and Linda were quickly and quietly married.)

A major headache in the divorce game is accounts receivable. An example here is Dena Al-Fassi, 32. She is a former London shop clerk who in 1976 married Sheik Mohammed Al-Fassi, a few years her senior. He is the Saudi who bought a large Beverly Hills estate, painted the mansion pea-soup green and highlighted the genitalia on the estate's nude statues, outraging the neighbors.

A good Muslim, Mohammed took a second and then a third wife. Sheika Dena went to court in 1982 to obtain

a legal separation based on irreconcilable differences. Marvin Mitchelson, who had by now become something of an expert on Islamic matrimonial law, represented her. On her behalf, he claimed that Al-Fassi was worth as much as $3 billion. The Los Angeles Superior Court awarded Sheika Dena $81 million.

That was in the spring of 1983. To date, however, the estranged Mrs. Al-Fassi (the couple is still only legally separated, not divorced) has seen only about $10 million, and that has been primarily in property, including the Beverly Hills mansion.

Probably the best assurance for timely collections on a settlement is another eager spouse-to-be waiting in the wings. Patricia MacMillan, 37 ("but I look 29"), was a junior college student when she was dating the boat captain of John Hugh MacMillan III, 63, the Minnesota-born Cargill heir. She married MacMillan in 1979. In 1986 Hugh accused her, in a legal filing to end his marriage, of having "participated in extramarital affairs." He later voluntarily dismissed the petition, and the couple remained married another five years.

But this year their divorce proceeding went through. Patricia got $550,000 a year for 20 years, will receive a $2 million trust next year, now owns the MacMillan 6-acre Hillsboro Beach, Fla. estate, and will get $75,000 annually in child support for their three children. Shortly after the divorce, Hugh married the young Dawne Wheeler, of Minnesota. Hugh, who had two yachts called *Patricia*, renamed one *Dawne* to celebrate his new bride. The marriage lasted only from around Memorial Day to Labor Day. The vessel *Dawne* is now known as *Hat Trick*.

Bettinger

Dena Al-Fassi
Awarded $81 million, she got hold of $10 million.

A relatively happy divorce story is that told by Frances Lear, who divorced television producer Norman Lear in 1985. Frances, 68, a former buyer at Bloomingdale's, received a reported $112 million settlement, a significant portion of which she has already spent on her magazine, *Lear's*. "It was a civilized divorce," she says. "We left it all to the attorneys. Norman got the art, I got the apartment."

But much more typical is the story of Lillian Goldman, who fought bitterly for a divorce and never got it—although that turned out to be the best thing for her.

The feuding Goldmans, Sol and Lillian, were married on Christmas Day, 1941. By the time he died in 1987, he had amassed a $1 billion real estate empire. But his success ignited personality and power struggles that tore the family apart in one of the most public and self-lacerating legal battles ever joined.

In 1983—after 42 years of marriage—Lillian, today 69, filed for divorce, demanding an equitable distribution of their property. In April 1984, just days after a family birthday dinner at the Carlyle Hotel, Sol offered Lillian a deal. If she would return to him and make an attempt at reconciliation, he promised her one-third of his estate when he died and $6 million in cash over a period of time, plus a furnished apartment later valued at $9 million. She accepted. A legal agreement was drawn up and signed in one evening in Lillian's suite at the Carlyle Hotel.

A week later Lillian discovered a note from her attorney, the late Roy Cohn, to Sol's lawyer, Raoul Felder. In it, Cohn complained that Sol had offered him only $100,000 for his part in the negotiations. Lillian became highly suspicious of the deal and wanted no part of it.

Lillian sought to reinstate the divorce proceedings, which had been halted by her signing of the Carlyle agreement. She tried to set aside the agreement while Sol sought to enforce it. He was successful when the court deemed the agreement valid in 1987. Within a month, Sol died.

Now Lillian was thankful for the New York Supreme Court's ruling. With Sol dead, she had just received one-third of his estate outright, instead of having a third locked up in a trust providing her only with the income—the minimum Sol could legally have left her in New York State.

Frances Lear
"It was a civilized divorce," she says. "Norman got the art, I got the apartment."

Enter the Goldman children. They challenged the enforceability of their parents' agreement and claimed that their mother was an abandoning spouse. Four years later, in July 1991, Manhattan's Surrogate Court finally decided in Lillian's favor.

But the case isn't over. The children have the right of appeal; the properties, now diminished in value by the real estate recession, must still be divided; and the IRS has yet to take its full share. Who knows when this matter will be settled?

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For an appreciation of how sour these divorces can get, consider the story of Richard Mellon Scaife, now 59, great-grandson of Pittsburgh patriarch Thomas Mellon, and his former wife Frances, now 56.

It's understood that several years ago Scaife met Margaret (Ritchie) Battle at a social event and pursued her. Their liaison is said to have led to a fairly public (at least for the very private Scaifes) separation between Richard and Frances.

In the summer of 1990, when Dick and Ritchie moved into Dick's Nantucket summer home, they were shocked to find their new neighbor was none other than Frances. She was staying in the house next door, reports a source close to the Scaifes, and was frequently seen sitting outdoors facing Dick and Ritchie's house.

Any prospective gold digger would be well advised to make sure she or he has the will to persevere. Wealthy entrepreneurs often see their divorces as another interesting business challenge.

Dick supposedly tried to settle, but Frances turned down his offer, and the matter went to court. However, an unsympathetic judge, impressed by Frances' estimated $25 million personal fortune, reduced her settlement award considerably, according to an intimate source. The divorce was granted on a Tuesday last May; wedding invitations were rushed out so Dick could marry Ritchie the following Saturday.

What has happened to these wealthy women? Here's one interesting fact: While all of their former husbands—except Kluge and Trump—have remarried (and in some cases, re-remarried), only one of the women—Jean Cooke—has done so. "Men like to be married," says Frances Lear. "They are so dependent on us; they have to have someone pick up their shirts. I haven't thought about remarrying." But considering all the work involved in a good divorce, who can fault her for that? ■

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Walter Annenberg turned down $1 billion for his art collection and instead gave it away to an institution and a city that once made a mockery of his generosity.

Amazing grace

By Christie Brown

WHEN Walter Annenberg agreed last March to give his fabulous impressionist and postimpressionist art collection to the Metropolitan Museum of Art in New York, the museum couldn't gush enough about what a great guy he was. It isn't every day someone donates a $1 billion collection, encompassing 53 spectacular paintings and drawings by the likes of Monet, Manet, Cézanne, van Gogh, Braque and Picasso. "It is an act of outstanding public-spiritedness and generosity," raved Philippe de Montebello, director of the Met.

De Montebello might have added—but didn't—that Annenberg's gift was an act of outstanding graciousness, too. More, maybe, than either the Met or New York deserved.

In 1976 Annenberg wanted to give the Met $40 million to complete a building program and to fund the Fine Arts Center of the Annenberg School of Communications, which would become a new wing of the Met. The center's mission would be to promote arts education through advanced technology.

Suddenly the wrath of New York's politicians and cultural elite descended upon Annenberg's head. The Met board (which had recently recruited Annenberg to its ranks) waffled. Politicians wailed that the center would destroy Central Park (onto which the Met backs). The *New York Times'* art critic Hilton Kramer solemnly intoned that the proposed Annenberg Center would be a "ghastly misfortune [if] it were eventually to find a place under the Met's capacious roof." Annenberg's antagonists took

The Annenberg Collection

"The Siesta" by Paul Gauguin, one of 53 works donated by Annenberg

"I defy you or any expert to tell the difference between the original paintings and the copies."

every opportunity to remind the public that the publisher/collector had been a key supporter of that rogue Richard Nixon.

Annenberg allowed a decent interval to pass, then, in March 1977, withdrew his offer. The very *Times* that had attacked his idea for the Annenberg center then editorialized that Annenberg should give his $40 million to the museum anyway. "We hope he will reconsider," sniffed the paper, without reconsidering its own snobbism.

The affair began in 1972, when Annenberg, long a collector of first-rate impressionist paintings, was serving as U.S. ambassador to the Court of St. James's, and the Met started to woo him for its board. The Met's motives were transparent, but Annenberg accepted that with good humor. Then Met director Thomas Hoving recalls: "Daniel Davison, a Met board member [now chairman of Christie's] approached him. Walter sat back and said, 'I just want to know if I can afford the honor.' Just before he was leaving his post as ambassador, he came back and said, 'I think I can afford the Met.' "

Annenberg joined the board at a time when the museum had been very much in the news. Hoving, its flamboyant and ambitious director, had been giving fits to the art establishment by advertising the museum, soliciting fees from visitors and embarking on expansion programs. But nothing caused Hoving as much grief as the Annenberg center proposal. One reason: Hoving himself was to serve as director of the center, and that seemed altogether too much to the important people who were frightened by the changes Hoving was bringing to the staid Met.

Hoving, now an art consultant, recalls those days and the criticism heaped on Annenberg with awe laced with bitterness.

"Stories came out saying, 'How dare this Mafia, money-washing confidant of unimpeached coconspirator Richard Nixon try to take over the Met?' " says Hoving. "Some even said it [the offer] was bogus—that this blowhard didn't have the money anyway."

Hoving, who had already given notice as museum director, left the Met altogether.

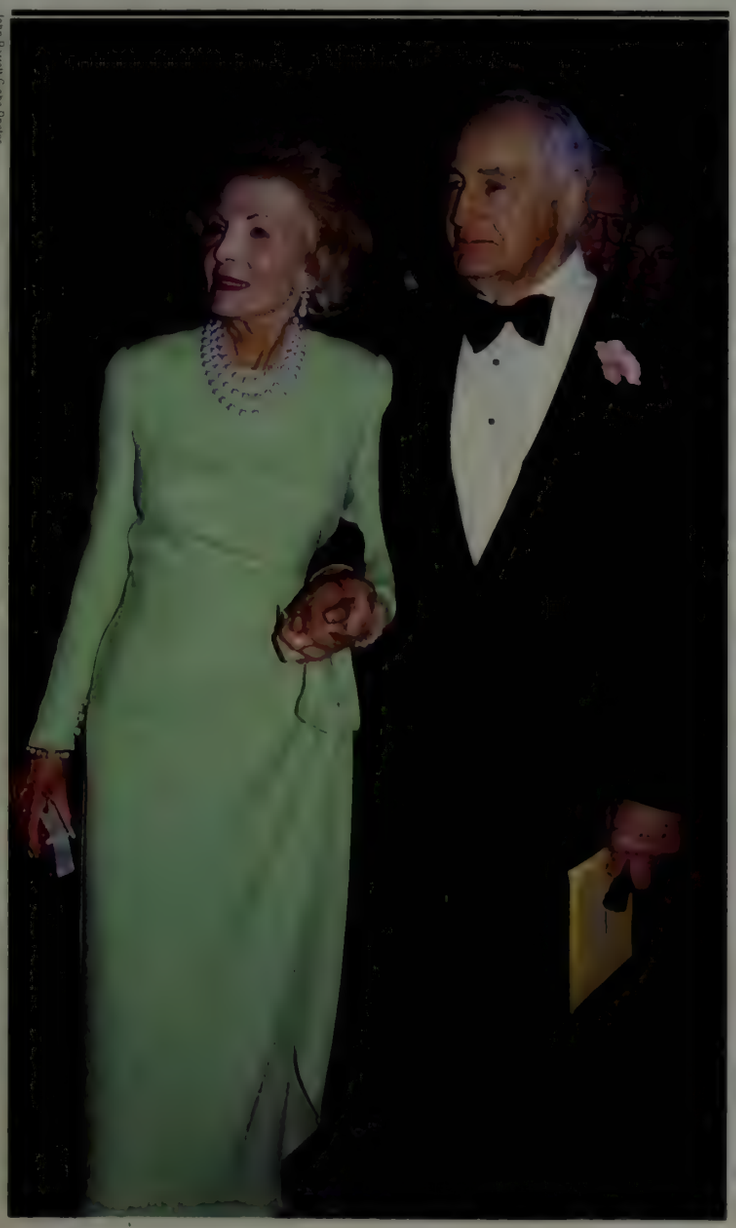
Annenberg put the nasty business behind him, kept his seat on the board and went back to running *TV Guide* and adding to his art collection. In 1989 he bought his most costly work, Picasso's "At the Lapin Agile," at Sotheby's, for $40.7 million. But even more astronomical prices were being paid. Annenberg, who pocketed an estimated $700 million in 1988 when he sold Triangle Publications to Rupert Murdoch for $3.2 billion, was an underbidder for van Gogh's "Irises," which sold in 1987 to Alan Bond for $53.9 million.

It was at the height of this art market frenzy that Annenberg got an astonishing offer. "I received a call from a banker in Tokyo who said he represented a syndicate and identified himself—I don't remember his name," Annenberg says. "He said the syndicate was prepared to pay $1 billion for all my paintings."

Relaxing recently in the living room of the Beverly Hills Hotel's famous bungalow No. 5 (guests have included the likes of Elizabeth Taylor, Katharine Hepburn and Sophia Loren), Annenberg told FORBES he

The Annenberg Foundation

Picasso's "At the Lapin Agile" **Bought at auction for $40.7 million.**



John Barrett/Globe Photos

Walter and Leonore Annenberg at the unveiling of his collection at the Met **"No good deed goes unpunished, but I don't intend to let that discourage me."**

"Camille Monet on a Garden Bench" by Claude Monet, destined for the Met

Sell the collection to the Japanese for $1 billion? "It would have been indecent."

never gave the Japanese offer a second thought. "It would have been indecent," he said.

In fact, Annenberg had long since made up his mind where the paintings would go after his death—the Metropolitan Museum.

But that didn't mean he wouldn't keep the Met's directors guessing. In 1983, for example, Annenberg declared that Sunnylands, his 205-acre estate near Palm Springs, would be turned into a private museum for the paintings. Yet, all the while, he says, he was even keeping the Met's needs in mind when he bought for his own collection.

In 1986 Annenberg, who had rarely lent his paintings, agreed to a major exhibit of the works at the Philadelphia Museum of Art. Word got out the collection was up for grabs, and what was termed the "Annenberg stakes" was on. The National Gallery of Art in Washington, D.C., the Los Angeles County Museum of Art and, lastly, the Met all rushed to beseech Annenberg for permission to show.

Annenberg slyly hinted that the commotion was irrelevant when he said in 1989: "I have heard it said that no good deed goes unpunished, but I don't intend to let that discourage me." But if the museum directors got his drift, they ignored it. Annenberg was regaled with presentations, each museum bragging it could provide the best galleries, fattest catalog and slickest promotion. Annenberg agreed to exhibit at all four, and gave out multimillion-dollar gifts to keep the pot boiling.

Finally, last March, Annenberg called off the competition and announced that the Met would be the repository for his collection. His key conditions: The Met can never sell any of his paintings, and they must be displayed together permanently. The collection, which ended its exhibit at the Met earlier this month, will remain in Sunnylands until Annenberg's death, when the gift will take effect.

Eventually Sunnylands will have its own museum, to display other art pieces—and the walls will be adorned with reproductions of the famous paintings. "I defy you or any expert to tell the difference between the original paintings and the copies," he says.

Annenberg is now philosophical about the debacle almost 15 years ago. "It was disappointing," he says. "But I could understand their [the board's] position because they had to get along with New York City. In life, the ability to know when to back up is of great importance."

/e've got performers who have earned a quarter of a illion dollars in just the past six years. How come they 'en't on The Forbes Four Hundred?

Singing for :he IRS

' Matthew Schifrin and Christopher Palmeri

›RBES HAS BEEN charting the for- ıes of America's highest-paid en- tainers since 1986. Over that time l Cosby has grossed $290 million, ichael Jackson $230 million. Ma- nna, poor girl, hasn't done quite so ll; she grossed just $150 million.

With this kind of cash flow, one ›uld expect to see America's popu- entertainers amassing great alth. Yet there is only one perform- on The Forbes Four Hundred to- ý. Gene Autry, now 84, got there his investments, not just his earn- ;s as a singing movie cowboy.

How come? Popularity is fleeting, d those huge cash flows tend not to t long. Of the names among the 86 Forbes Top 40 entertainers, ly half were still on the list this year. ›ne are Jane Fonda, Tom Selleck, nny Rogers, Whitney Houston.

In large part because stardom is so hemeral, a performer cannot capi- ize his or her cash flow by selling erests in it to the public. If Madon- earns $10 million in a year from ling records, at the end of the year : is maybe $6 million richer after :es. A piece of real estate with $6 llion net cash flow could be sold for ıybe $60 million. But what can ıdonna sell?

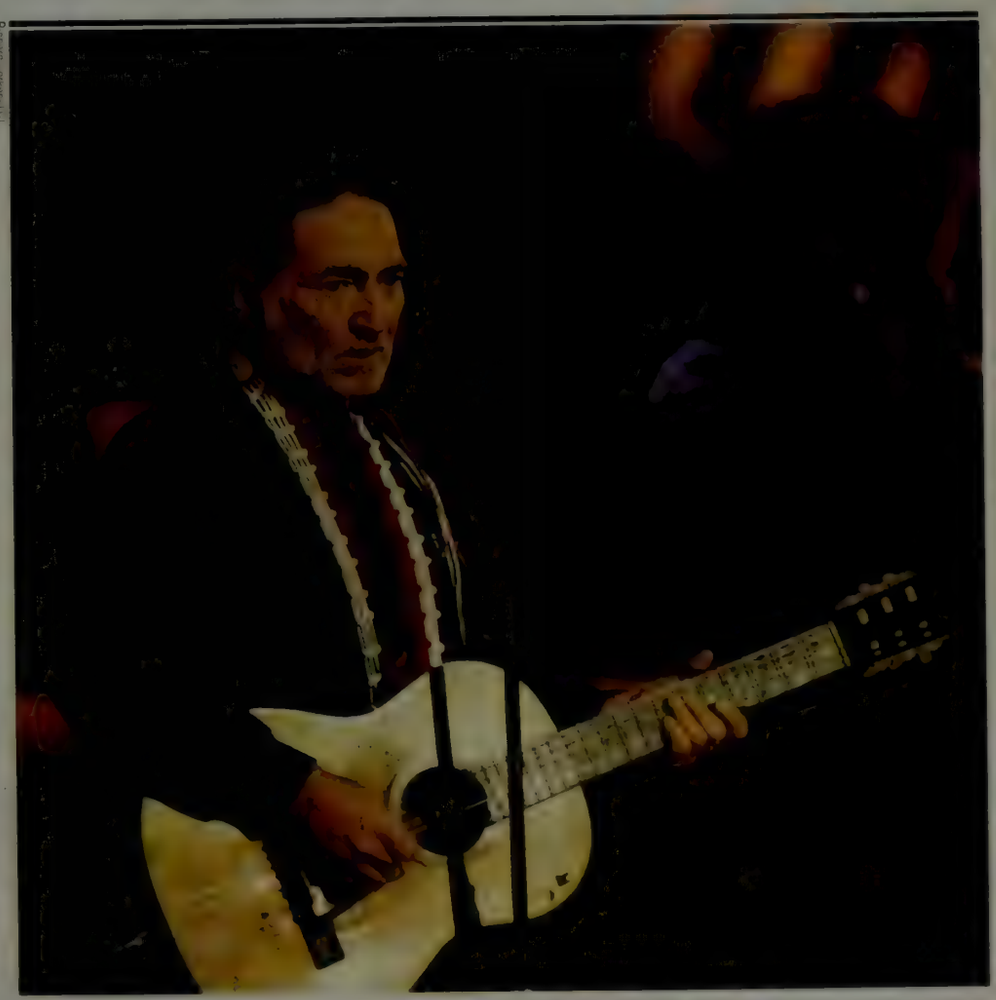
Of course, entertainment entrepre- urs are better off in this respect than : entertainers themselves. If a rec- l company earns $6 million in a ır, that company could easily com- ınd a price of $90 million in the ırketplace.

Anyhow, the more successful a per- mer, the greater his expenses. First, :re is a personal manager, who takes % to 20% of annual gross income. Then a booking agent, who arranges engagements, or "gigs," earns 10% on every deal. There's often yet another business manager, in charge of mundane things like paying bills, preparing taxes—and investing the performer's money. He gets 5% of gross income. Of course, the legal profession gets a chunk, too: 5% or so.

If you're a really big star, you'll probably need your own publicist, for around $50,000 per year.

So maybe Bill Cosby didn't really make an average of $48 million a year. Maybe he made more like $33 million when he got through paying his entourage. With taxes, including state and local, running probably close to 40%, that would leave Cosby with an average take-home of maybe $20 million. Then, of course, a star must live like a star. Cosby owns at least five residences around the country, a dozen automobiles and a private jet. He's generous, too, having given several tens of millions to universities and charities.

"Lifestyle can eat up $3 million or so a year for some of these stars," says Los Angeles-based business manager Robert Philpott, whose clients include Michael J. Fox. "They have to have a full staff, be limousined around town, jetted first class and live in mansions. That can eat up savings pretty quickly." Rap star Vanilla Ice grossed about $18 million in the last



Country crooner Willie Nelson

Spending his retirement in government service.

two years. He is relatively new to the record charts, yet he already employs a large entourage of friends and acquaintances for such things as towel maintenance.

Even if he were to earn at his current rate for another decade, Bill Cosby would probably have trouble making The Forbes Four Hundred. Unless, of course, he and his managers got lucky in their investments.

In the late 1970s, when he was reportedly earning a paltry $3 million a year, Johnny Carson embarked on a number of investments, largely under the supervision of Los Angeles attorney Henry Bushkin, known to *Tonight Show* viewers as "Bombastic Bushkin." Carson invested in TV stations, a bank, Houston real estate and ill-fated DeLorean Motor Cars. Some of these deals were outright disasters. Only one, a Las Vegas TV station, was a great success. Says Bushkin: "Are stars so omnipotent that if anything goes wrong it's not their fault? I'm a lawyer, not a business manager."

Elena Seibert/Outline

Comedian Bill Cosby

Where did nearly $300 million go?

New York City-based entertainment litigator Leonard Marks specializes in suing managers on behalf of stars. Attorney Marks does a good business. He is currently representing rock star Billy Joel in a lawsuit against his former manager.

Elvis Presley's longtime manager, Colonel Tom Parker, cut himself in on 50% of Presley's earnings. Eddie Murphy's first manager, King Broder, renowned for wearing purple sunglasses monogrammed with a crown, signed Murphy to a six-year contract that entitled Broder to 25% of his income.

Even Cosby, shrewder than most entertainers, has had big problems with a business manager, Mary Waller, whom he recently sued for embezzlement. Waller allegedly diverted over $8.5 million of Cosby's funds during the 1980s for horses, clothing and personal investments.

There is hardly an investment fad around that some entertainer hasn't been caught in—abusive tax shelters in the early Eighties, junk bonds in the late Eighties (before the bust). And the Nineties? Off to a good start. Consider Archer Communications, a Vancouver Stock Exchange company with virtually no earnings that claims to make recordings in "3-D" sound. A year and a half ago, when Archer's stock was trading around $14 a share, rock 'n' rollers from bands like Bon Jovi sank nearly $3 million into a private placement. The stock now languishes around $5 per share.

"Most entertainers don't know the difference between a balance sheet and a balance beam," says Marks.

He cites his complaint on behalf of Billy Joel. Joel entrusted his fortune to the brother of his ex-wife and agreed to pay the brother-in-law 20% of gross income. Thus, during concert tours like a recent one to the Soviet Union, Joel claims his manager made more than he did, because the rock star was responsible for most of the expenses.

Joel also gave his brother-in-law power of attorney, which, according to the lawsuit, was improperly used to make unauthorized loans and investments for Joel in his own companies, including horse breeding syndicates, oil-and-gas and real estate ventures. Marks claims Joel lost at least $10 million in such transactions. Joel never audited his manager. He learned what was going on only when, after eight years of mismanagement, Joel brought in an outside accounting firm to review the books. (Anthony Conforti, an attorney for the ex-manager, says his client denies any wrongdoing.)

And consider the sad case of country-and-western star Willie Nelson, who discovered that his former business manager had neglected to file his income tax returns in the 1970s. Nelson apparently chose no better the second time. He fired the manager and eventually promoted his old manager's young assistant to be his personal manager. The new manager and Nelson went to the big accounting firm Price Waterhouse for financial advice. The idea was to use heavily margined government securities contracts and cattle-feed futures to create tax losses that would offset the unpaid back taxes. The IRS disallowed most of the losses. Nelson, a heavy spender, was almost broke.

So Nelson is touring to come up with the $15 million the IRS now wants—not including interest. "I had really considered myself almost retired," says the 58-year-old Nelson, who will perform over 100 shows this year in 90 cities. He sings in front of a banner emblazoned with the number that fans can dial to order his new $19.95 CD *(The IRS Tapes)*, of which $6 goes to pay off the taxmen.

Steve Guzzi/Retna

Pop singer Billy Joel

Did his ex-wife's brother earn more?

Of course, there is Gene Autry, as smart an investor as they come. Autry was, for a period in the 1930s, one of the world's top-earning entertainers. His earnings as a performer provided the seed capital, but it was investing that brought him a fortune estimated at $300 million. He bought broadcasting properties starting in the 1950s and baseball's California Angels in 1961.

But performers are rarely smart investors. Merv Griffin, who sold his TV production company to Coca-Cola in 1986 for $250 million, fell off The Forbes Four Hundred last year because of bad investments.

Frank Sinatra was on the right track for a while, extending his talents into ownership of casinos and a record company. According to Kitty Kelley's biography of Sinatra, he owned half of the Cal-Neva Lodge, a casino on Lake Tahoe. But he disposed of his casino holdings—worth $3.5 million—in 1963 after the Nevada gaming com-

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Record company founder Frank Sinatra

Did the Chairman get bored too soon?

mission sought to revoke his license for allowing reputed mobster Sam Giancana on the premises. Sinatra denied the charge. He founded Reprise Records, now a major division of Warner Bros., in the early Sixties, but sold his interest in 1969 reportedly for $22 million. Today his most visible holdings are property in Palm Springs and a Long Beach, Calif. Budweiser distributorship worth an estimated $20 million.

"With a few notable exceptions, people who excel in the creative side of the entertainment business are not, at least initially, driven by money or the need to build empires," observes former TV star and now movie director Ron Howard. "When they do succeed, and their bank account swells, they tend to seek either more creative freedom or semiretirement, neither of which really has much to do with building successful companies." What you don't seek, you generally don't get.

Howard, the star of TV's *Happy Days* in the late 1970s and more recently the director of *Cocoon* and *Parenthood*, may be a little different. He formed a movie production company called Imagine Films Entertainment in 1986 with his partner, producer Brian Grazer. Together they own stock worth about $40 million. Adds his partner Grazer: "We want to build a film library and acquire a distributor. We want to be on your list some day." The odds are long, but they can be beaten.

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Thinking of starting a business? Below, eight entrepreneurs who've earned their way onto The Forbes Four Hundred talk about the opportunities they see in the years ahead.

Business plans for the millennium

By Subrata N. Chakravarty and Kathleen K. Wiegner

HAS ALL THE MONEY been made, all the great fortunes created? Nobody who has made a lot of money thinks so. "There are more opportunities today than I've ever seen before," says Charles (Chuck) Dolan. "The difficulty is disciplining yourself to focus."

At 65, Dolan has built a $440 million fortune for himself, first by founding Home Box Office (now owned by Time Warner) and then by starting Cablevision Systems, a 1.6-million-subscriber cable company. Dolan still sees great possibilities in cable, not so much in the ownership of systems but in the programming. Hundreds of cable channels, he says, will be available for each home in the years ahead, thanks to improving technology. When that happens each home will in effect be a giant newsstand where consumers can choose among a multitude of programming options. Many of those entrepreneurs who provide the programming will get rich, just as magazine and newspaper entrepreneurs have gotten rich over the past few decades.

"If you look at what has happened to print, it foretells what is likely to happen with video," said Dolan in the course of a long interview over a cellular car phone as he got caught in a

William Mercer McLeod

Microsoft founder William Gates, the second-richest man in the U.S.
Another idea: It could take hundreds of buttons to run your electronic home—or maybe just one smart black box?

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Long Island traffic jam. "If you just go and stand in front of the newsstand at Times Square and look at all the magazines that are addressed to a variety of interests, you can see how one medium has responded [to a segmented marketplace]."

Taking his own advice, Dolan has gone with specialized programming with Bravo, a culture channel; American Movie Classics; and ten regional sports channels. As cable channels proliferate and costs fall, audiences for each channel can get smaller and smaller and still be economically viable. In the print media, specialty magazines replaced generalized magazines like *Look* and the *Saturday Evening Post*. Dolan foresees channels devoted to photography, computers or cars reaching audiences about the same size as comparable specialty magazines. Depending on the desirability of the audience to advertisers, or its willingness to pay for service, a commercially viable audience might be as small as 100,000 subscribers. (By contrast, a prime-time network show drawing fewer than 10 million viewers is almost certain to be canceled.)

This means anyone with an idea and a camcorder can soon have a market to sell to. Producers will arise to finance the programs. Distributors will arise to package the new products into a series or a channel format and sell it to the local cable systems.

Another thought: With 400 channels and thousands of programs, *TV Guide* and the other now manageable weekly television program listings will begin to look like telephone books. A new kind of listing will have to be devised—maybe on a monthly throwaway computer chip? Walter Annenberg's shoes are there to be filled.

There could also be big money, Dolan thinks, in so-called video on demand, a sort of armchair video rental store. Consumers could have a film or other program electronically sent to their homes. The natural distributors: cable companies and telephone companies, whose businesses are getting closer together anyway (FORBES, *Mar. 18*).

America's best export

Another entertainment entrepreneur, Viacom's multibillionaire controlling stockholder Sumner Redstone, thinks the best way to make money is to take a proven idea and extend it—either multiply it over and over or spread it geographically. He did both with his National Amusements, Inc., one of the nation's largest operators of movie theaters. Redstone created the multiplex theater concept—several screens in a single building—and then built them across the country.

When he noticed television and VCRs stunting growth in moviegoing, he acquired Viacom, the video programming giant that also owns cable systems with 1.1 million subscribers.

The idea for the Nineties, says Redstone, is to export American culture throughout the world. "We are in the midst of a global revolution in entertainment, and it's escalating," he says. Viacom already delivers the music channel MTV to over 30 million homes in Europe. "When the Russians said, 'I want my MTV,' they got it." India, Pakistan, China and Taiwan have been added to his distribution list. "We're committed to the philosophy that if you have a global network that offers global exposure to advertisers with products of global appeal, you're going to win."

What does this mean for other entrepreneurs? The cable programming creators and series producers and distributors foreseen by Chuck Dolan can go overseas, too. As Redstone is taking rock music to the Chinese, other entrepreneurs may buy the rights to old *Leave it to Beaver* episodes, say, or *Twilight Zone* dramas, and package them for, say, the Latin Americans. And Dolan's specialty magazines on video could go to specialty audiences scattered all the way around the world, once a global network is in place.

Steven Jobs, Next founder
Computers should sound as good as CD players, with pictures as good as TV.

"Small software companies are very efficient"

The second-richest man in America, 35-year-old Bill Gates of Microsoft fame, believes enormous computer industry opportunities lie in what is popularly known as "multimedia." Far more powerful microcomputers will be able to manipulate digitized

Photographs by William Mercer McLeod

Echelon's Mike Markkula
Light bulbs that talk to computers?

images and sounds, and so create almost any kind of home or office environment imaginable.

In the course of a free-ranging interview in Gates' office at Microsoft's sprawling campuslike headquarters, Gates said he is already well along in his thinking about multimedia products. The questions he has been asking himself: "What should the user interface be? What is multimedia publishing all about? What are the tools that will help teachers to build these experiences? How can we take this technology and have it play a role in education?"

For answers, Gates is creating an experimental high-tech "art gallery" in the 34,000-square-foot lakefront home he's building in Medina, a Seattle suburb. Instead of framed pictures, the walls will be hung with high-resolution flat-panel video monitors. At the press of a button, a computer will sort through a vast library of images stored on compact discs or videotapes and display whatever Gates wants, be it Monet or Miss September. Appropriate sound from an audio CD player could be run by the same controls. As you get to the all-digital world, explains Gates, every home could one day have an image database, just as homes now have the *World Book Encyclopedia*.

The right kind of large flat screens for photographic-quality images are still a few years out, and likely will end up being made by the Sonys and Panasonics of the world. But the money to be made will be in the creation and sale of images and databases, and in creating the software needed to get the image from CD to screen. For starters, enterprising types could be acquiring electronic display rights to sounds and images people might want.

Next, how about a "digital publishing company" that would issue art and photography of any kind, not in glossy coffee-table tomes, but on discs? A franchised service to digitize old family portraits or anything else the consumer wants?

The possibilities are endless. In short, Gates' picture panels portend an entire publishing industry that doesn't exist today.

With *everything* on computer, Gates figures people will become overloaded with data. Another business opportunity: "Reasoning software that can sort out what is interesting and what is not." Some software already goes beyond the familiar keyword search libraries used to pick out newspaper articles or papers. But it is still primitive. Better software, Gates believes, needs to be developed to help select the information a person really wants—not just words but ideas, images and sounds as well—from the digital welter.

Another fortune exists, according to Gates, for the guy who can figure out how to integrate all your office equipment—fax, telephone, computer, printer, copier—so they can easily communicate and work together: multimedia in the workplace.

And it won't necessarily be Gates and Microsoft who do it. Microsoft is now a $1.8 billion a year (sales) company with 8,200 employees and a $15 billion market capitalization. Says Gates candidly: "Big companies get locked into a kind of thinking and don't always see the revolution. . . . A new company could come up with a product as big as our biggest product. Small software companies are very efficient."

"Interpersonal computing"

Another of the superrich computer entrepreneurs of the 1980s, Apple cofounder Steve Jobs, 36, takes a somewhat more focused approach to the promise of the computer industry in the 1990s. Jobs, who left Apple to start Next Inc., believes there's a bright future in computers with far better color graphics, compact-disc-quality sound, top-quality video. "I truly believe that one of the things we missed as an industry is the quality issue," says Jobs, as he shows off his newest computer. "For $250 you can buy a CD player that produces better sound than any computer except Next. Why should a $300 VCR outperform a several-thousand-dollar computer? There is something wrong with that."

What would such a high-performance personal computer do? A mu-

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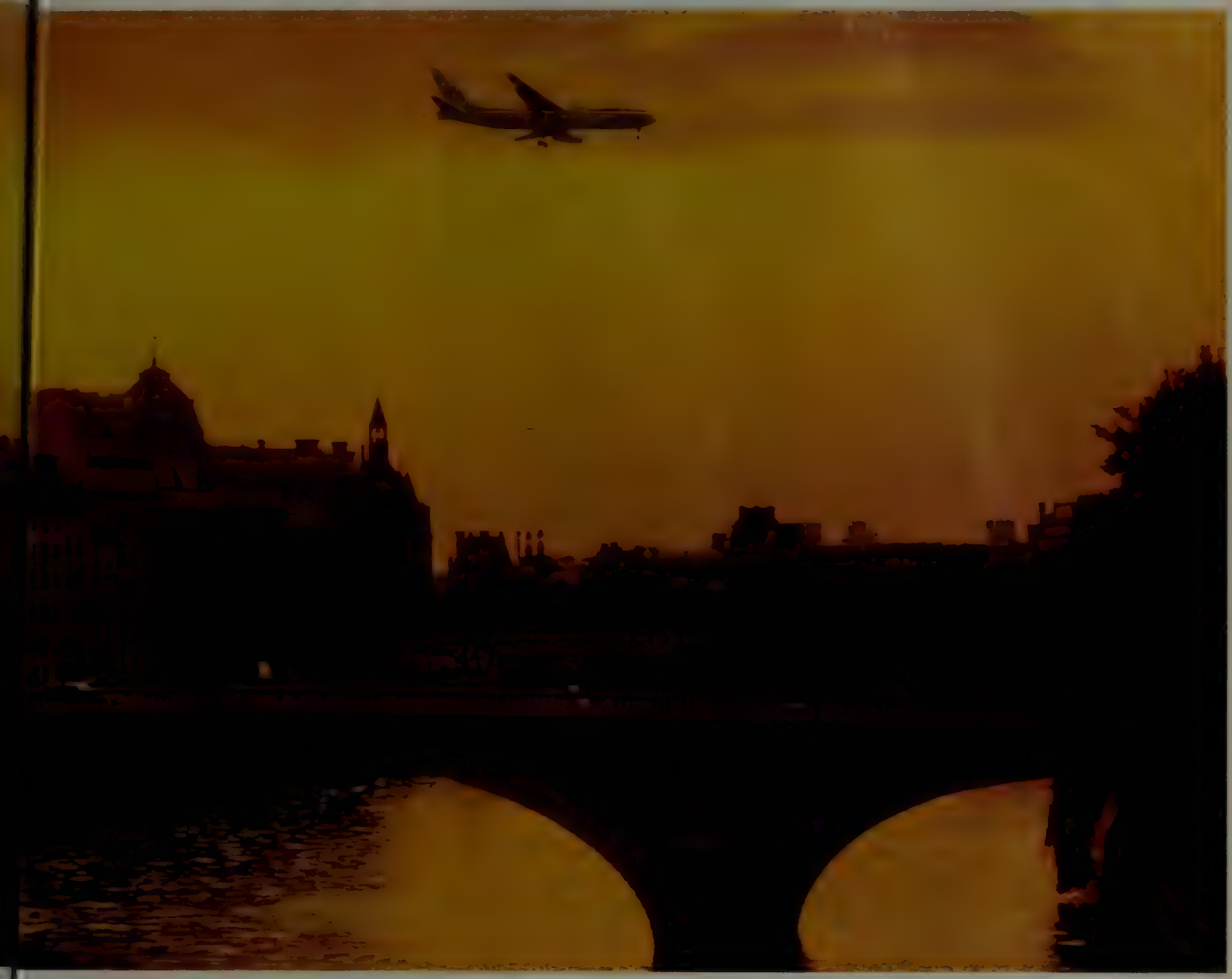

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sician might compose a new rock song on his Next computer, type in the lyrics and send it over a network to his producer or other members of his group to "play" on their computers. Small companies have already begun springing up to provide sound and video editing on the desktop formerly done on big, expensive studio equipment.

Jobs enthusiastically pushes the concept he calls "interpersonal computing." For Jobs, this means groups of people linking up by computer wherever they happen to be—on the other side of the building or the other side of the world—to work on anything that requires joint effort—hammering out a contract or designing a building. The collaborators could trade pictures or drawings or music as well as text or numbers. It would be like teleconferencing, only by computer—computerconferencing if you will. But first somebody has to develop computerconferencing systems and software. Those big flat-panel display screens Bill Gates envisions would be a big help, too.

"I am convinced," says Jobs, "that [interpersonal computing] is the third big thing in desktop computing, spreadsheets being the first and desktop publishing the second."

Smart machines

Forty-nine-year-old A.C. (Mike) Markkula, who cofounded Apple with Jobs, is also building a new technology company: Echelon. Echelon develops complex chips that talk to one another when embedded in any product from light bulbs to computers or other electronic equipment; thus they have the potential to save vast amounts of wiring in products. Example: The many strands of wire that make up the electrical wiring harness in an automobile, locomotive or office copier can be greatly simplified by Echelon's chips.

Markkula expects a whole generation of "smart" products that can talk directly to each other without a master controller. He reminded us once again of the beginning of the personal computer era he helped create: he and Jobs building Apple IIs not because people were beating down their door demanding PCs but rather on the faith that millions would find a use for PCs once they were widely available. Ultimately Markkula thinks there will be chips with millions of transistors that will cost pennies.

What could you make with these chips that provide so much function at so little cost? "Who would not use them?" counters Markkula.

Antonin Kratochvil

Blockbuster's Wayne Huizenga
Could you sell cool, clear water?

Water worrier

Like Microsoft's Bill Gates, H. Wayne Huizenga (new to The Forbes Four Hundred this year) also counsels budding entrepreneurs to plan their products around logical, foreseeable developments. When FORBES talked to him over tea at New York's posh Helmsley Palace Hotel, Huizenga made the case that one thing that is clearly foreseeable is trouble with the nation's supplies of clean water.

Huizenga got his first start picking up and disposing of garbage; he cofounded Waste Managment, Inc., now the world's largest handler of waste materials. He left Waste Management in 1984 to go into businesses in Fort Lauderdale, renting coolers and supplying 5-gallon water containers on a regular basis. After he started his bottled-water business, he sold out to Clorox to concentrate on the fast-proliferating video rental store trend. The result: Blockbuster Entertainment. In four years it has become the supermarket of video rental and, with 2,000 stores, by far the industry leader.

His noncompete agreement with Clorox expired, Huizenga is now getting back into water. Living in Florida, Huizenga is convinced a water crisis already looms. Florida, he notes, is adding 1,000 people a day to its population, and most of its water comes from aquifers. The increasing population strains the supply and damages the water table.

Even people who rely on their own wells—in Florida and elsewhere—cannot be certain their water will not be contaminated by pollutants from lawn chemicals, say, that have leached into the ground. And treated city water is pumped through pipes often decades old. Such water is overtreated with chemicals to kill the bacteria in the old pipes. It tastes accordingly. Huizenga believes people will become willing to pay for good water without the chemical cocktail.

"There's a big area of growth [in providing good water], primarily in the Southwest and Florida right now, but it's going to spread all across the U.S.," Huizenga predicts. "You need a pure source, or you use deionization—purifying, softening or removing minerals from water. You can take city water—or swamp water—break it down to pure water, put some minerals back in [for taste or health reasons] and distribute it."

The primary profit, he says, comes from renting the coolers, just as the real profit in waste disposal comes from renting dumpsters. The water is the service that makes the cooler rental necessary. "Because I come from the rental business, I look to rental for the future," says Huizenga.

Shifting gears, Huizenga also sees increasing potential in health care for the aging U.S. population. Again he stresses the rental aspects.

"As people get older, they're going

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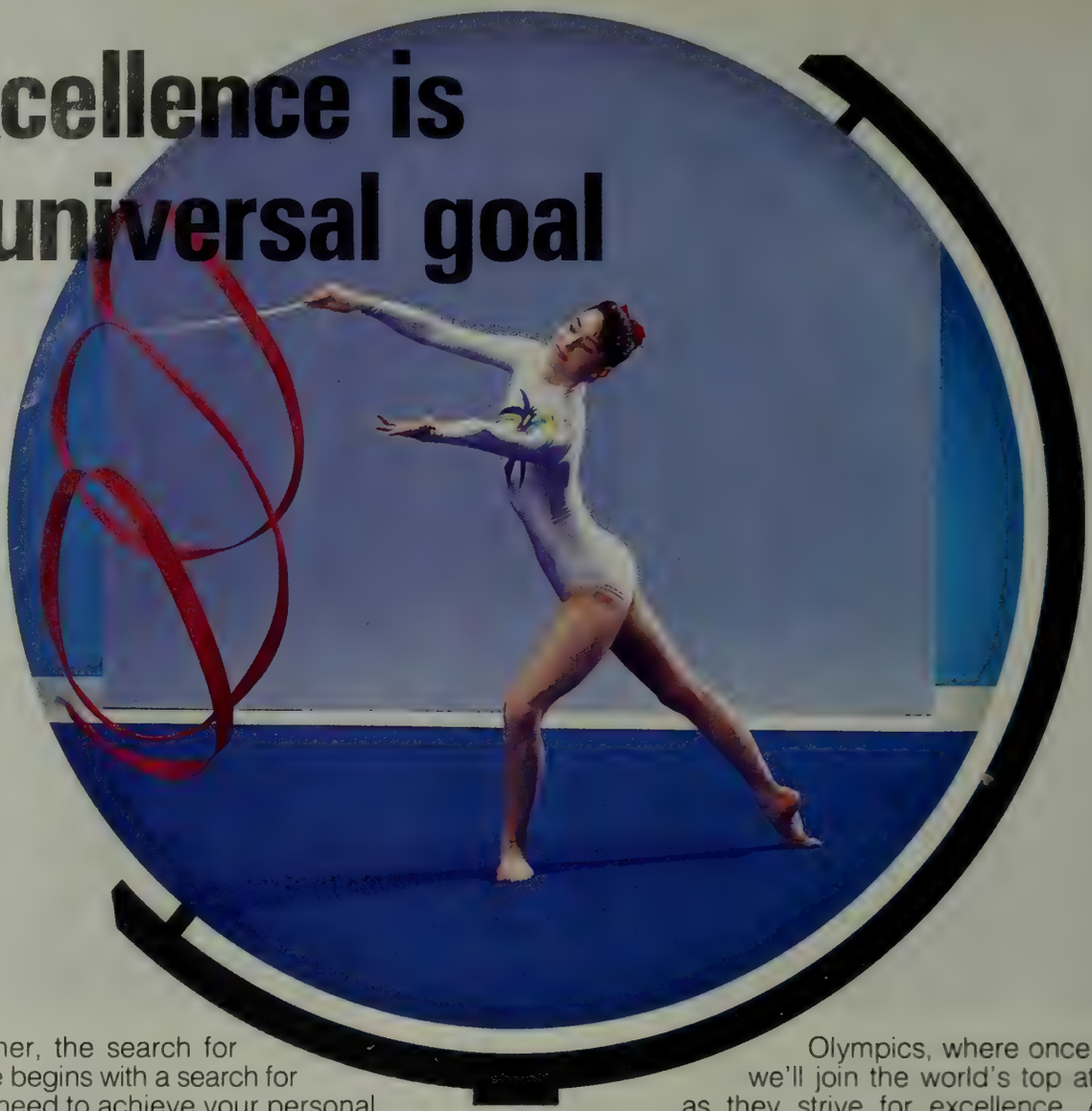

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to have health problems," he says. "You're going to see a lot of in-home care, because it's cheaper." Thinking of hospital-type beds, bedpans, canes, walkers and wheelchairs as well as more expensive equipment, Huizenga says: "There's no sense buying that. People will rent them and then return them."

Similarly, Huizenga foresees temporary-help agencies for health care workers—nurses and orderlies who work in homes, doctors who make house calls, and so on. "There's a company in Fort Lauderdale now called Hospital Staffing Services, and they're growing by leaps and bounds," Huizenga says.

Doc in the bucks

Richard Rainwater, the Fort Worth-based money man who made so much money for the Bass brothers (and for himself), also sees opportunity in health care, but at the other end of the supply chain: hospitals. "The U.S. is an example of what's going to happen to the rest of the world as the rest of the world becomes more affluent," he observes. "More and more people are finding more and more things that they can fix in their bodies and their lives, and they will all go into hospitals or outpatient surgery to get it done."

Rainwater is a director, and a major investor, in Hospital Corp. of America and the cofounder of Columbia Hospital Corp., which owns 12 hospitals. Rainwater gives the doctors and other staffers who work in his hospitals an equity stake to motivate them to provide care more efficiently. It is a controversial practice because of potential conflicts of interest and the chances of malpractice suits.

But Rainwater is unapologetic. "There is a shakeout under way," he says. "Better hospitals and better doctors are drawing patients away from lesser hospitals and inferior doctors."

As the cost of health care continues to rise, insurance companies will be under increasing pressure to restructure health insurance. Specifically, they may begin to pay to keep subscribers healthy rather than pay only for illnesses to be cured. Hospitals with good "well care" programs may not only have a new revenue source

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William Mercer McLeod

Intel cofounder Gordon Moore

Look for opportunities that are off to the side, not in the mainstream.

but also a presold customer when someone does become ill.

A second major area of opportunity, in Rainwater's opinion, is energy services and technology for the oil and gas industry. Rainwater himself has invested heavily in outfits such as Energy Service Co. and Penrod Drilling. Both have proprietary drilling technology. As oil gets harder to find and pump, drilling will have to get ever more sophisticated. Higher oil prices will make so-called tertiary recovery—using chemicals to loosen oil deposits so the oil can be pumped up—a major opportunity for the people who can commercialize new techniques.

The micromachine age

Someone noted that if the price of a Rolls-Royce automobile had followed the price of computing power over the past 20 years, a Rolls would now cost $3.50. A leading factor in computing's amazing cost reduction is Gordon Moore, 62, a cofounder of innovative semiconductor chipmaker Intel Corp. "I personally turned down the personal computer project at Intel," laughs Moore, with typical self-deprecation. But he can foresee no end to future possibilities for the silicon chip.

"I am aware of one little company that is using what is essentially our technology to build a disposable chip to do blood analysis," says Moore. "You take a microliter of blood and 90 seconds later you get an analysis of the top five blood components. It is inexpensive compared to conventional blood analysis and is available immediately." Shrinking other analytical instruments to an inexpensive throwaway chip could give entrepreneurs the sort of opportunity instrumentation pioneers Tektronix and Hewlett-Packard had in the 1950s.

Moore is particularly intrigued with what are known as "micromachines." Instead of etching tiny transistors on a chip of silicon, engineers are now creating microscopic mechanical devices: flaps, gears, even tiny motors. But unlike semiconductors that respond only to electrical impulses, these micromachines do real mechanical work. The parts are created out of layers of silicon stacked atop each other. Acid etches away the nonessential silicon, leaving a tiny three-dimensional machine anchored to a silicon base. Silicon, at this scale, is actually stronger than steel. Could there be power saws and drills so small they could be used to shape the human eye, or drill the plaque out of human arteries?

Researchers at the University of California at Berkeley have developed a tiny light bulb that can fit on the tip of a needle. Tumors can be spotted by the amount of light that passes through tissue. An instrument with one of these light bulbs on one prong and an optical sensor on the other could be inserted into a suspicious area to perform an "instant biopsy" without excising a sample for the lab.

"They [micromachines] are phenomenally intriguing," says Moore enthusiastically. "It's a technology looking for a problem to solve."

A cosmic thought

Why is it that the rise of great personal fortunes—in the late 1800s, in the 1920s, and again in the 1980s—goes hand-in-hand with a rise in the overall standard of living? Microsoft's Bill Gates gives a good answer to that question when he offers this advice to people still seeking their fortunes: "It's too late to do the same things we did. You have to do something new."

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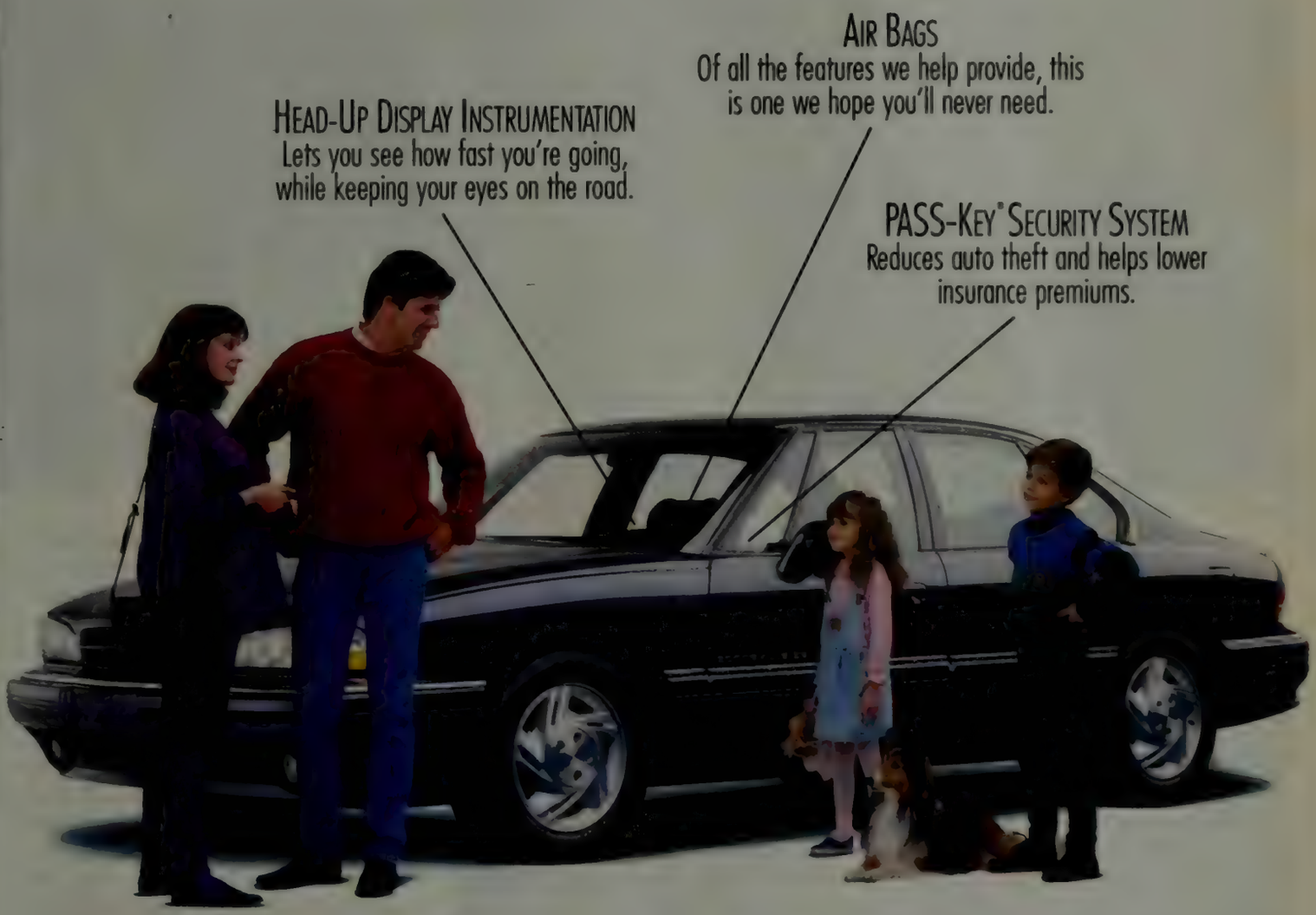

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So far the 1990s are looking a lot slower than the 1980s, but that doesn't mean it's a bad time to start a business. Consider what these six entrepreneurs were able to do during a real depression.

No guts, no glory

By Stanley H. Brown

BREAD LINES, soup kitchens, unemployed stockbrokers selling apples on Wall Street. That, or something like it, is the commonplace view of the Great Depression of the 1930s. But even in those grim years, most people had jobs and went about their daily business. A few brave and very determined entrepreneurs refused to bow to evaporating credit and a generally dismal outlook for profits, and laid the foundations of what are now great fortunes. There was no secret why they did what they did: They had little to lose and much to gain. Below, some of the oldsters among The Forbes Four Hundred, past or present, who emerged from the Depression far richer than they entered it.

An accidental liquidator

"It was by accident that we came into the [real estate] business," recalls New York's Sarah Korein, now 77, with a trace of a German accent. "I was a teacher of Hebrew and Bible, my father was a scholar, and my mother was a real German hausfrau."

The Koreins had invested their modest savings in second mortgages on New York City apartments, a popular way of reaching for yield in the booming 1920s. When the Depression hit, landlords abandoned their buildings, leaving the holders of the first and second mortgages to fight it out for the privilege of owning the properties. Korein clearly remembers her first defaulted property, a six-story building in Astoria, across the East River in Queens.

"My mother and I went to look at it," she says. "It was not a pretty sight—seven stores on the street level, only two rented, the rest with broken windows; the lobby was shabby. The apartments rented for $40 [a month] for three rooms. We thought we could take it over for our $2,000 investment. But with the taxes, interest and amortization owed, the building was about $10,000 in arrears."

Korein and her mother found out that Prudential Insurance held the first mortgage on the building. They made a deal with the Pru that worked this way: "We said, 'You take the $10,000 we owe, add it to the mortgage. Extend the mortgage to us for 15 years. We will go in and fix up the building and rerent it.' " The Korein women became building managers with an equity participation.

Hausfrau Korein hired some unemployed German boys and gave them paintbrushes and tools to fix up the apartments. The Koreins then rented the rehabilitated units, taking $30 or $35 a month if they couldn't get the original $40.

"A year later we sold the building and doubled our money," Korein continues. "It was fully rented. We saved the Pru's money, we saved our own money, and we made a profit. That was the beginning."

The Koreins expanded their operation. In the 1920s banks had issued a version of today's collateralized mortgage securities called mortgage certificates. These were small pieces of mortgages banks sold to depositors and other small investors. After the 1929 crash, many of these mortgage certificates went into default.

The certificate holders were happy to realize any cash on these illiquid pieces of paper. From their experience with the defaulted second mortgages, Sarah Korein and her mother knew real value underlay the busted paper, and they began buying as many of these defaulted certificates as they could, at big discounts. Then they would present their mortgage certificates to the defaulting debtors, repossess the buildings, arrange new financing, and end up owning a building recapitalized at $150,000 that had failed under a $300,000 mortgage. A new wave of this kind of real estate liquidation is just now getting under way with commercial buildings in major cities.

Sarah Korein, then and now

A fistful of cash and ready to buy again when the time is right.

After her mother died, Sarah Korein began investing in better-quality real estate, notably apartments in Brooklyn's Bay Ridge section with dramatic views of the New York Harbor. She later moved into the Manhattan market. Today she owns the landmark Lever House on Park Avenue, the Delmonico Hotel several blocks away and other choice New York buildings. She conducts her business from her apartment in a building she owns on Central Park South with—needless to say—a spectacular view of the park.

Korein long ago left our 400 listing—FORBES estimated her net worth at $100 million—but she's not in bankruptcy, either. "This business is about when to sell, when to buy,"

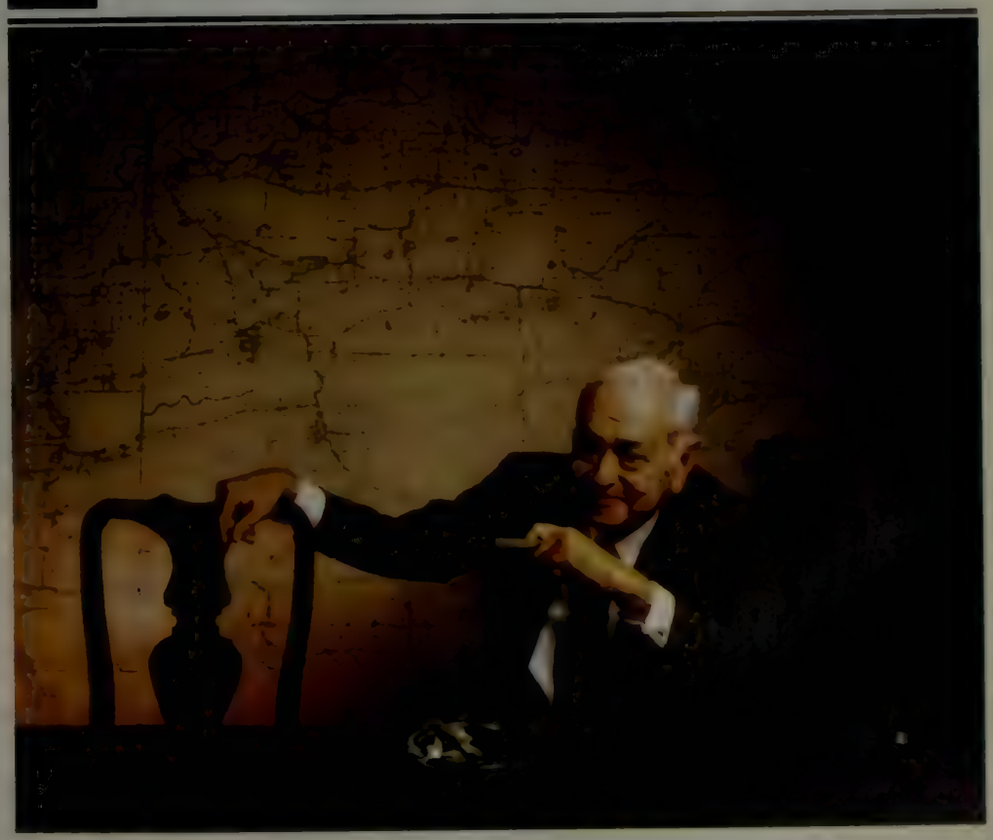
says Korein. She thinks that New York is way overbuilt and prices of commercial properties will stay depressed for some time. She recently sold her interest in the building that houses Manhattan's version of the Hard Rock Cafe, on 57th Street, for $7 million cash. These days, she observes, "you have to have money instead of bricks. I've got the $7 million and I have a block of Rockefeller Center stock. So I am comfortable."

Bibles, bonds and belt buckles

For Wilton R. (Witt) Stephens in rural Arkansas, which hadn't known anything like prosperity since the cotton market collapsed right after World War I, the Depression was old hat by 1933. He was 25 at the time. Stephens had already left the family cotton farm and struck out across the country peddling silver belt buckles on Army bases and Bibles door-to-door—sometimes, it is said, getting a prospect in the mood by kneeling with her in prayer.

Wilton R. Stephens

Trust me, this Arkansas traveler told his customers. They did, and everybody profited.



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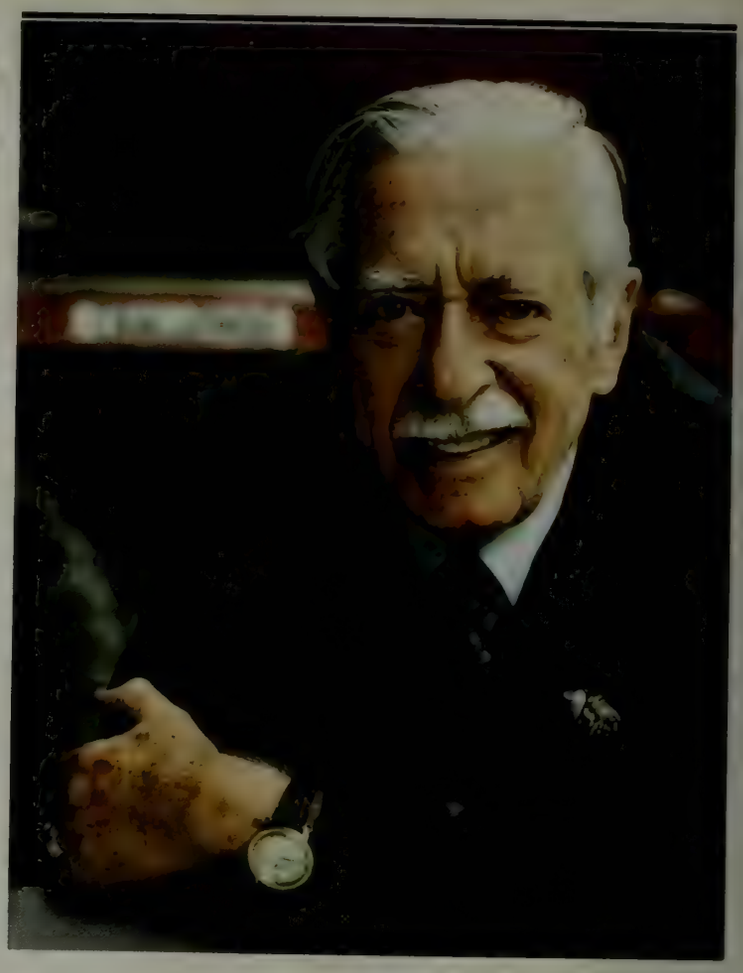
Then Stephens' father, who had served a couple of terms in the state legislature in Little Rock, made a big bet that the state's highway bonds, selling for as little as 10% of par, were going to be redeemed at par. Witt Stephens borrowed $15,000 and bought a bunch of the bonds—not as an investment but as inventory that had better potential than buckles and Bibles.

Stephens began peddling his bonds to country bankers looking for somewhere to invest their despositors' money. Treasury bonds were paying practically no interest then, and the highway bonds were interesting. "You'd buy bonds for a quarter," Stephens once told FORBES, "and sell for a dollar." When the bonds were redeemed at par, Stephens' satisfied customers remembered the young salesman.

In the mid-1930s Stephens began to underwrite state and municipal issues. And as the New Deal spread money around the country, nobody else got his hands on as much of the underwriting business that financed roads, bridges and public building construction in Arkansas as did Witt Stephens and his younger brother Jackson, who joined him after the war. Thus was laid, in a depressed part of a depressed country, the foundation of what is now a $900 million investment banking fortune.

Charles Allen Jr.
An eye for value.



Henry Crown
Getting an edge in the Chicago political jungle.

Instincts for value and safety

Charles Allen Jr. grew up in a cold-water tenement in Manhattan and as a teenager got a job as a runner on Wall Street. At 19, he started to trade securities on his own. His brother Herbert later joined him at his fledgling firm, Allen & Co. This being the 1920s, they prospered. The legend goes that the brothers were worth almost $1 million when the 1929 panic wiped them out.

Rather than abandon Wall Street, they began to make markets in stocks that other Wall Street houses had abandoned. Herbert and another brother, Harold, who joined Allen & Co. in 1932, got the family into insurance stocks, which, like banks, were traded almost entirely over-the-counter. Insurance underwriters had taken a tremendous battering in the crash; the established Wall Street houses mostly shunned them in the years immediately following. That left the market pretty much to marginal dealers like the Allens, who realized that the real estate and other underlying collateral and the propensity of individuals to keep making payments on their life policies made these vastly underpriced stocks. Pretty soon other people began to see in insurance stocks what the Allens had seen; by the mid-1930s Allen & Co. was thriving again. Developing a reputation for shrewdness, they made big money on steel companies—for example, they helped the Rockefellers get out of Colorado Fuel & Iron.

After World War II Allen & Co. helped capitalize Syntex Corp., of which they still own a $550 million slice. They directed the merger of Warner Brothers and Seven Arts in 1967. Steve Ross' soon-to-be Warner Communications Inc. bought it a couple of years later. Allen & Co. repeated the trick with Columbia Pictures, which they bought into in 1973 and sold to Coca-Cola Co. in 1982.

People who have known him closely say Charlie Allen, now 88, has a special instinct for cheap stocks. But the family's real secret seems to lie in finding opportunities that yield profits that are very large in relation to the risks associated with the opportunity. As Charlie Allen once put it: "We like to know all the faults of a company and one good reason for going into it." By looking for the faults, they avoid the big mistakes that wipe out capital.

Low, lower, lowest cost hauler

When you deal in commodities like sand and gravel, controlling operating costs can be the whole game, especially in hard times.

Take high school dropout Henry Crown (1896-1990). His family's Material Service Corp. was one of scores of undercapitalized building materials suppliers in Chicago after World War I. Hauling sand and gravel to construction sites is a very tight-margin business. Squeezed by bigger competitors, the young Crown looked at bulk transportation costs as a way of reducing the cost per ton of

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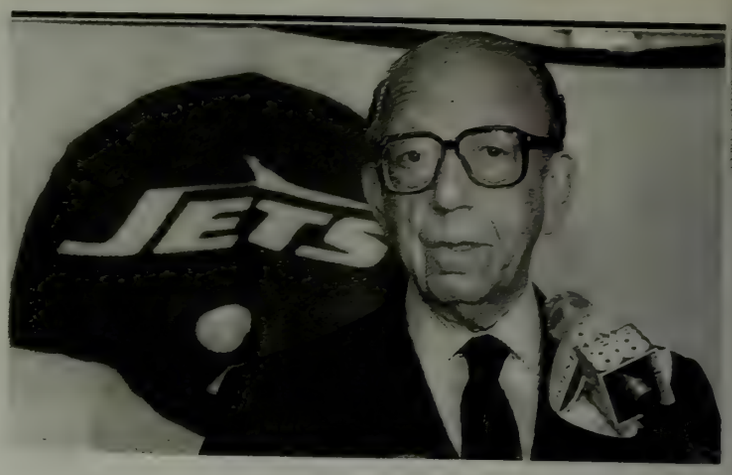
material moved. He explored the extensive interconnected network of rivers and canals in and around Chicago until he found sand and gravel deposits in Lockport, Ill., a mile from the water. Crown borrowed money to build a rail line to the shore, where it met waiting barges, and gave his company a huge cost advantage over competitors that had to haul their material by truck.

In 1931 construction collapsed and Material Service was caught with heavy bank loans. Crown's bank was taken over by First National of Chicago, which wanted collateral on Crown's loans. Crown offered First Chicago everything he owned, including his house. That spirit and the fact that Crown was the low-cost supplier in his industry convinced First Chicago to keep its credit taps open to the young entrepreneur.

Chicago in the 1930s went from lean to fat once New Deal money started pouring through the Cook County political machine. The city's Outer Drive, major park developments and public buildings began revamping the city and producing huge profits for contractors. Material Service—as supplier to many contractors—received what amounted to an override on the activity. Today Henry Crown's 66-year-old son Lester and his other heirs have a $1.6 billion fortune to squabble over.

Leon Hess
How a truck driver with a blowtorch turned refinery waste into a major oil business.



Michael Stern/NYI Pictures

Heavy fuel man

When his father's coal and oil delivery business in Asbury Park, N.J. failed in March 1932, Leon Hess, then 19, jumped into his father's delivery truck and took over the business. By day he made sales calls. At night he loaded the truck and started on his deliveries.

Hess operated just across the bay from New York City, where the northern New Jersey swamp was filled with oil refineries; the area was a veritable warren of competitors. But from his vantage point Hess spotted the opportunity that would make him superrich.

Residual oil is the thick, gooey stuff that is left in an oil refinery after the lighter distillates (gasoline, kerosene and the like) are taken out of crude. "Resid" had some use as an industrial fuel, but it had to be kept hot to flow and burn. By and large the refineries thought it was useless.

Daniel K. Ludwig
The right contracts at the right time.

One day Hess made a deal to sell a small load of residual oil to a nearby New Jersey hotel whose boiler could burn it if Hess could truck it in hot enough to pour; he used a blowtorch to keep the fuel in a liquid state. With that night's difficult but successful delivery, Hess had the start of a major business: supplying residual oil for industry. He could buy resid cheaper than coal (then the major residential heating fuel) and sell it for about the same price per Btu. The customer saved money because residual oil left almost no ashes to haul away. The economics of the thick stuff caused many coal customers to switch to Hess. As the money came in, Hess bought or built heated tanks and trucks to handle this bottom-of-the-barrel fuel everyone else had ignored.

Resid became a major fuel and is today a low-margin commodity. But for several of Hess' pioneering years the fuel was very profitable; Hess Oil Co. made enough money to branch out all over the oil business and eventually to acquire Amerada Petroleum. With revenues last year of $7.1 billion, Amerada Hess has a market value of $4.5 billion. Leon Hess and his family still own 15% of the company.

Contract banking

In the late 1920s Daniel K. Ludwig acquired an ancient tanker. He managed to keep her afloat and find cargoes for her in the 1930s. He bootstrapped that into a small collection of government surplus vessels. By the time the oilfields in the Arabian peninsula came into production in the late 1930s, Ludwig was ready to capitalize on his tanker experience.

There was a problem. He had little capital, and the banks, then as now, were turning off their credit spigots. Ludwig got around that by convincing the oil companies that suddenly needed to transport Arabian oil to charter his not-yet-built vessels. He used these long-term charter agreements as collateral for loans to build the ships—in effect, he was able to borrow as if he had been a major oil company. When war broke out, he won huge contracts to build ships for the government.

Now 94, Ludwig in the 1970s lost a big chunk of capital on his timber venture in Jari, Brazil. It was a calculated risk, and Ludwig took it at an age when most men worry about their pension checks. No guts, no glory.

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George Fisher Baker got very rich running a bank. Nobody gets really rich running banks today. That's probably why our banking system is so sick.

The best kind of deposit insurance

By James Grant

GEORGE F. BAKER looked like an old-time banker ought to look, with dundreary whiskers, top hat and umbrella. His career should inspire Congress to consider a capitalist solution to our current banking predicament.

Baker, first and foremost, was a great capitalist. In 1934, three years after his death, his estate was appraised at $74 million. At the top, in 1929, it would have been valued in the neighborhood of $174 million, over $1 billion in today's dollars.

If we know one thing about banks in 1991, it is that owning them is no way to get rich. You'll find Mellons and Rockefellers listed among The Forbes Four Hundred, but it isn't the banking business, c. 1991, that put them there.

The Baker name, nowadays, is mainly identified with Ivy League buildings. George Fisher Baker endowed the Harvard Business School and built the Baker Memorial Library at Dartmouth. Remembered for giving money, he was also unsurpassed at getting it.

To the public, Baker was the "dean of American banking," or the "Sphinx of Wall Street," but to Wall Street itself he was that rare bird of plumage, the moneymaker. He and his bank bought low and sold high and lent safely at a spread; they bought common stocks and underwrote corporate bonds; they traded government bonds and advised the Treasury Department. The blend of those vocations, even more so than his great wealth, is what commends him to us today.

Born in 1840, Baker came of financial age as the National Banking Act was passed, in 1863. He died in 1931, just before the Great Depression had entered its truly demoralizing, ashes-to-ashes phase.

The bank he helped to found in 1863 and which for many years he controlled, the First National Bank of New York, was subsequently absorbed by National City Bank, forerunner to Citicorp. John Reed's nonlineal ancestor, Baker would hardly recognize the place today.

Throughout his professional life, Baker was what The Street called an "upbuilder." He was a bull, a patriot and an optimist par excellence. As Charles E. Mitchell, the chairman of the National City Bank from 1929 to 1933 and no mean optimist himself, eulogized the old man: "Baker was essentially an American with a faith in his country that precluded any possibility of serious and lasting trouble due to poor business conditions and depressions."

Not that Baker had never seen hard times. The last decades of the 19th century were tumultuous—the slump of 1873-79, for instance, was among the nation's worst—but Baker and his bank flourished as if the age were serene. How they did it is the story of both the man and the world in which he enjoyed the latitude to operate.

In Baker's day, safety was more than the banker's first commandment. It was also the germ of the banker's franchise. The safekeeping of deposits had not yet been socialized by government edict. "It is cheap insurance," Baker once adjured his son, "to keep strong."

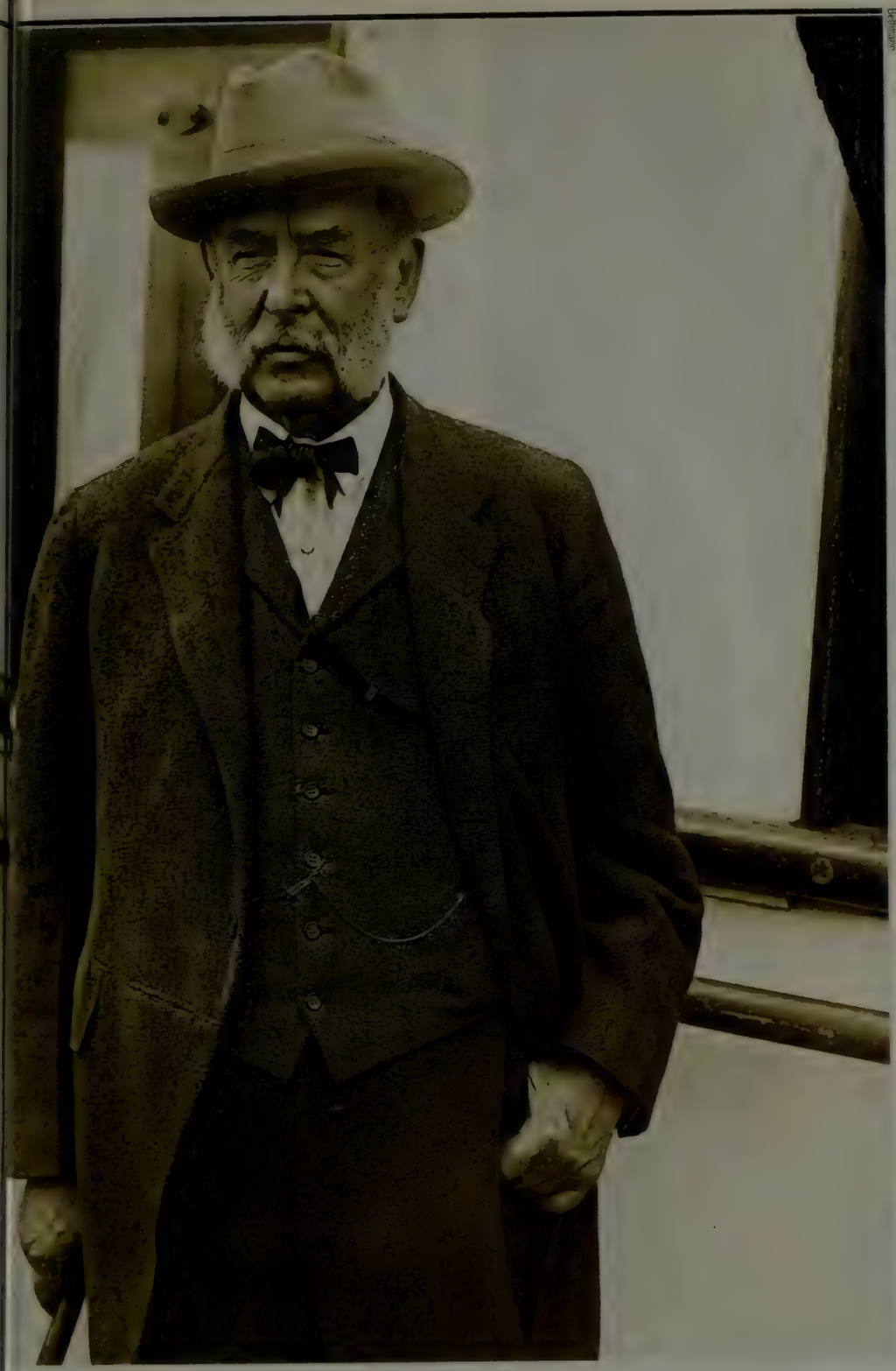
Bettmann

George Fisher Baker

Baker endowed the Harvard Business School, built Dartmouth's Baker Memorial Library and gave Columbia Baker Field. Remembered for giving money, he was also unsurpassed at getting it.

There was no Federal Reserve and no Federal Deposit Insurance Corp. National banking was overseen by the Office of the Comptroller of the Currency and its bank examiners, one of whom, Charles A. Meigs, was assigned to examine the First in 1872.

Meigs had been around for years, but he had never seen the likes of it. He sprinkled his reports with exclamation points and underscoring. He



Bettmann

thought it noteworthy and laudable, for example, that the First's directors owned "4,630 shares out of 5,000!" (Lebanese billionaire Edmond Safra, who controls 29% of the parent of solid Republic National Bank of New York, is one of the few contemporary bankers to carry on that capitalist tradition on a scale comparable to Baker's.)

Meigs was thunderstruck by the range of the First's moneymaking activities. It was a brokerage firm and a bankers' bank. It dealt in bonds and lent against the collateral of trade bills presented by its out-of-town correspondents. It cultivated these correspondent relationships so widely and assiduously, Meigs exulted, that "it may well be called a Manufactory of National Banks!" It achieved growth but did not relinquish safety.

Not even Baker's bank was a safe-deposit box, of course. Every dollar of the depositors' money was not in storage on the premises every minute. The art of banking is to balance the risk of a run against the reward of a profit. The tantalizing factor in the equation is that risky borrowers pay higher interest rates than safe ones do. Ultimate safety—a strongbox full of currency—would avail the banker nothing. Maximum risk—a portfolio of loans to potential bankrupts—would invite disaster.

Baker safely and profitably walked the middle ground. In a time of low interest rates and intermittent panics, a good banker paid nothing, or next to nothing, for his deposits. Thus, no severe financial penalty attached to not lending. A banker could afford to say "no," and Baker said just that repeatedly.

Baker's trial by fire was the failure of Jay Cooke & Co., the champion government bond selling house of the Civil War era, in 1873. In peacetime the firm had tried its hand at selling the junk bonds of the Northern Pacific Railroad. Overburdened with unsold bonds, Cooke failed and the panic was ignited.

The president of the First, Samuel Thompson, urged that the bank be closed before the depositors trooped up the steps to close it themselves. Baker was then the cashier. He was 33 years old and the father of two small children. His capital and career were invested in the bank, and he argued the case for courage. "I propose to pay every claim presented as long as the money lasts," Baker said. "When we stop paying it will be because there is not another dollar in the till, and none obtainable."

"So the panic didn't bother you very much, did it?" Baker, by then an old man, was asked by Samuel Untermyer during Congress' Money Trust hearings in 1913. "I guess if you had been there you would have thought so," Baker dryly replied.

But the clouds of 1873 were silver-lined. Baker was able to assume control of the bank, and he set about building an institution that was both bold and conservative.

What the Federal Reserve does nowadays by government mandate, the First did by private initiative. It dealt in government bonds and discounted the notes of its correspondents. It continued to cultivate country banks. In fat times, it accepted

their deposits and paid them a small rate of interest. This money it re-lent at a higher rate in New York. In lean times it lent to banks in need, at a price, again anticipating the role of the Federal Reserve.

One such act of profitmaking assistance in 1877 inspired bank examiner Meigs to new flights of admiration. The Rochester Savings Bank was a solvent institution with $8 million in deposits—"very sound," Meigs judged—that had suffered a run. Two of Rochester Savings' trustees applied immediately to Baker's First for a $2 million loan, against which they could post an identical $2 million in good collateral.

"The Bank loaned them $500,000 Currency, on the spot, and hurried it to Rochester, by Express," Meigs reported at the time. "Within a day or two $600,000 more was loaned them—in Currency—and hurried to Rochester—to the rescue of a solvent Institution!"

A brilliant performance: In the examiner's opinion, not another bank in the city could have carried it off. "Can you wonder," wrote Meigs, "that this Institution gets such enormous Country Bank Deposits when this is the way they will come to the rescue?"

As for government bonds, the First was both a marketmaker and underwriter. In the Civil War, the Treasury had borrowed at 6% and higher. In the 1870s, it was able to refinance that debt at 5% and lower. The First was instrumental in this refunding, earning huge profits and burnishing its reputation for profitability.

While the depression dragged on and credit-related losses mounted for most banks, the First built a new headquarters at 2 Wall Street in 1881. It would come to be known as "Fort Sherman" after John Sherman, the Treasury Secretary with whom Baker and his colleagues had worked so well and so profitably.

Before the passage of the Glass-Steagall Act, which forced commercial banks to exit the investment banking business, the First simultaneously took deposits and underwrote corporate bonds. Baker invested the bank's capital in railroad equities and the railroads borrowed from the bank. It was not a conflict of interest; rather, it

Baker's "Fort Sherman" at 2 Wall Street
"Once inside the main banking room," wrote the New York Times on May 3, 1931, "one is struck by the fact that there are hardly any customers in the bank."

was an absolute unity of interest. It was Baker's bank, and that of his partners, and they ran it to earn a profit.

As a rule, Baker's stocks rose, his bank grew, his bonds paid interest and his venture-capital investments bore fruit. Irreproachably liquid and well-capitalized, the First was also unusually profitable. As reward is commensurate with risk, Baker did not owe his success to prudent investments in 3% bonds. But in the days before deposit insurance, prudence was a prerequisite to risk-taking. Thus, Baker stayed strong for the best of all capitalist reasons: It paid.

Baker made mistakes, too, but not the kind that salaried lending officers made in the 1980s by going the extra mile for Donald Trump. Probably the greatest financial blow that Baker ever absorbed was the defalcation of $700,000 by one Cornelius L. Alvord, a teller, in 1900.

Baker had just been paid the high honor of election to the presidency of the New York Clearing House. Hardly had people stopped shaking his hand when the theft came to light. The amount of the loss was greater than the stated capital of the bank (though not of its real capital: A year earlier its net worth had come to more than $8.3 million, representing no less than 18.5% of its $45 million in assets; they don't make them like that anymore).

Twenty years later Baker was still mortified at having been duped by a man he had completely trusted. "Nothing ever hurt me like the Alvord affair," he said.

Baker was a buyer, almost a collector, of bank stocks, and he built a sizable position in Bank of Republic, the institution with which his bank shared offices at Fort Sherman on the corner of Broadway and Wall Street. In 1901 the neighbors merged, and no more natural combination might have ever been imagined. The combined entity, which kept the First National's name, flourished until the Depression.

As the First became a mighty institution, Baker became a powerful man. Late in the 1890s he was a director of 31 companies and a peer of James Stillman, president of National City Bank, and of J.P. Morgan (with whom Baker was wont to leave the directors' meetings of U.S. Steel, arm in arm).

Along with Morgan, Baker was instrumental in stilling the Panic of 1907, but in the wake of that crisis Congress demanded reform. In 1913, Baker was called to Washington to explain his role in the "Money Trust," an alleged monopoly of banking and the channels of credit.

The country had had no positive proof that Baker could even speak. The great banker said nothing in public as a matter of principle, and when, in 1922, at the age of 82, he reluctantly granted his first newspaper interview, the opinion he then chose to deliver was that businessmen talked too much.

For a man so unaccustomed to being in the public limelight, Baker, at the Money Trust investigation, soaked it up. "Smiles played frequently across his broad features," a newspaper reported, but the mood of the hearing room was all business. Samuel

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Untermyer, counsel to the House subcommittee charged with getting to the bottom of the alleged money monopoly, asked Baker to explain his bank's investments.

Not all was harmony on the regulatory front in those days. In 1908 the First had set up a securities affiliate to hold the common stocks that, according to the Office of the Comptroller of the Currency, were no longer suitable investments for a nationally chartered bank.

Untermyer was suspicious of that subsidiary, one of the first created for the specific purpose of eluding the letter and spirit of the federal rules. He was also suspicious of the 88 directorships that Baker and his fellow directors of the First National Bank held in outside corporations.

"I suppose you would see no harm, would you, in having the control of credit, as represented by the control of banks and trust companies, still further concentrated?" Untermyer asked him. "Do you think that would be dangerous?"

"I think it has gone about far enough," Baker replied, surprising the lawyer.

Not satisfied with Baker's concession, however, Untermyer pressed for even more.

"You think it would be dangerous to go further?" he ventured.

But Baker balked. "It might not be dangerous, but still it has gone about far enough," he said. "In good hands, I do not see that it would do any harm. If it got into bad hands, it would be very bad."

Untermyer pressed again, and Baker backpedaled; the banker said that he could not imagine financial power falling into "bad hands." "I do not think bad hands could manage it," he said. "They could not retain the deposits nor the securities."

Untermyer did not think to ask whether bad hands might not retain hundreds of billions of dollars in deposits and securities if a federal deposit-insurance apparatus were enacted. Why should an insured depositor—or the uninsured depositor of a bank deemed "too big to fail"—worry about anything? Nor did Baker, a man of the 19th century, think to suggest such a radical possibility.

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Baker believed that character was the basis of credit—"Do you work, and do you sleep well?" he once asked some would-be customers—and he had a high opinion of the character of his bank. It was his conviction that First National Bank's money was worth 1% more than anybody else's money was.

Runs and panics, he knew, invariably spelled opportunity for banks with the capacity to continue to lend. Baker built a franchise by standing by his customers through thick and thin, as James J. Hill, the railroad builder, once related:

"When the panic of '93 came along, and currency was almost impossible to get, or credit, either, for that matter, I asked the First National for some assistance, and George Baker sent me this answer: 'I send you by express tonight what you asked for. If you actually need more I will take off my coat and go to work.' "

Baker was 72 years old when he was grilled by Untermyer, but he only became more optimistic with advancing age. He and his bank helped to finance World War I, just as they had helped to finance the Civil War, and they eagerly adapted to the new, Progressive-era ways. The Federal Reserve System, for instance, which he might have resented as socialized competition to his own central-banking business (as, indeed, it was), Baker instead embraced.

He borrowed from the new Fed's discount window unstintingly, and re-lent the proceeds at a handsome profit on the New York call-money market. If the Federal Reserve protested, Baker politely insisted that borrowing was his right, lending was his duty.

Baker similarly embraced the Coolidge bull market; to those who tried to tout him off his heavily margined equities, he replied that they did not understand. Weather permitting, the old man rode to work in an open Rolls-Royce, a small dog sitting beside him on the back seat. When the car, proceeding south on Broadway, reached the corner of Wall Street, a traffic cop would ostentatiously stop traffic to allow it to make a U-turn. The dean of Wall Street banking was the center of attention as he alighted on the pavement.

After the market collapsed in 1929, Baker said two things, one of them touching and one of them wise. Forgetting the magnitude of things, he addressed his private secretary, Frank Rysavy: "Frank, if I were a younger man, I'd take $10,000,000, go in there and turn this thing around."

Rysavy later asked Baker to imagine how wonderful it might have been to have sold out in 1929. To this impolitic suggestion, the old man replied that if he had started selling things, he would have "lost my position years ago. You see, you never know when you've reached the top."

"But Mr. Baker," Rysavy countered, "you know more about these swings than anybody else."

"No, Frank, you can't know," Baker sagely told him, "because every time is different."

Baker's death was the lead story in the *New York Times* on May 3, 1931, and a sidebar described the quaint scene at Fort Sherman. "Once inside the main banking room, which is considerably smaller than that of any other good-sized branch bank, one is struck by the fact that there are hardly any customers in the bank," the paper observed. "It is understood that one must have at least $100,000 to start an account."

Deborah Feingold/Outline

Karsh of Ottawa/Woodfin Camp

Citicorp's John Reed (top); Republic National's Edmond Safra

Why should an insured depositor—or an uninsured depositor of a bank deemed "too big to fail"—worry?

Though an irrepressible optimist on America, Baker was not optimistic enough to anticipate the advent of the consumer banking market, nor of the imperial American reach: Neither in his lifetime nor later did the bank open a single branch office, at home or abroad.

Baker's bank weathered the Depression with its reputation for strength intact, but it faded in the 1940s and early 1950s. The specter of another banking panic had receded sharply by the time of the first Eisenhower Administration—the First's impregnable balance sheet was losing its economic value—and no new Baker emerged to adapt the bank to the new ways.

When, in 1955, a merger with what is today Citicorp was at last arranged, the *New York Times* had the last word. "Ironically," the paper commented, "the niche that George F. Baker had carved for the First became less important with the end of the Bank Holiday, the early Thirties and the establishment of deposit insurance. When people began to cease worrying about the safety of their deposits, the premium declined on a bank that made a name for itself as the very epitome of conservatism."

By being conservative, George Baker also became rich. Because some banks could, and did, fail, there was a compelling economic reason to be safe. Which brings us to the present.

If Congress is serious about bringing back safe banking, the House and Senate Banking Committees might first bring back rich bankers. The right to succeed and the right to fail are opposite sides of the same coin. Restoring risk to bank deposits and restoring the incentives that led men like Baker, Morgan and Stillman to strike a market-directed balance between prudence and risk-taking would be the best possible cure for what ails the country's banking system today. ■

James Grant, editor of *Grant's Interest Rate Observer*, is writing a book on the history of banking and credit in the U.S.

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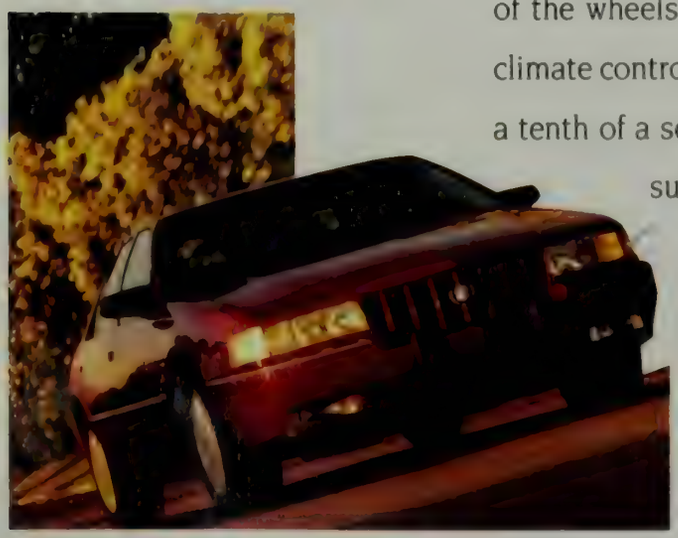

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Why are there no Mafia chieftains among The Forbes Four Hundred? Because, as the case of mob boss John Gotti Jr. shows, life does not imitate "The Godfather."

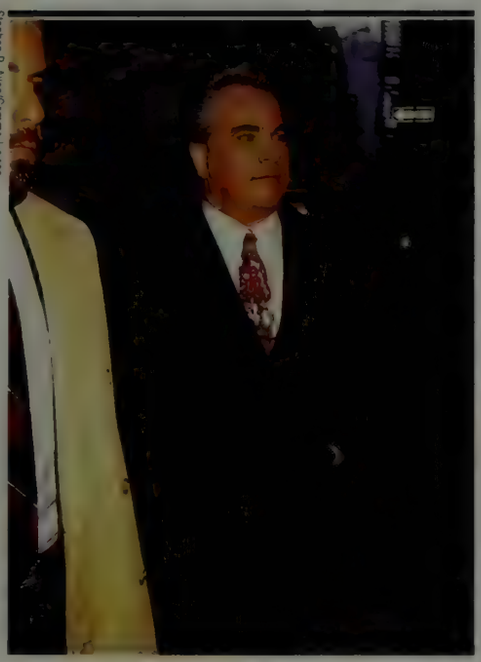
But where are the dons' yachts?

By James Cook

HE WOULD SEEM a prime candidate for The Forbes Four Hundred:

John Joseph Gotti Jr.

Mafia boss. NYC. 50. Married, 3 children (1 killed accidentally). Son of day laborer; high school dropout. Led street gang into notorious Gambino mob, NYC's biggest, 1966. Advanced via loan-sharking, hijacking; proved mettle by doing time (5 years altogether; hijacking, manslaughter). Released, became family member 1977. Rose fast; capitalized on mob's resentment of then-boss Paul Castellano. After Castellano's murder in 1986, was named successor to improve, redistribute mob wealth. Kept promise. Now jailed, awaiting trial (racketeering, tax evasion, murder), but still boss, widely feared. Powerful: controls much NYC gambling, loan-sharking; also key New York labor unions involving airport, garment, trucking, construction, garbage. Violent, profane; compulsive gambler. "A thug, not a racketeer." Net worth: whatever he wants.



Stephen P. Allen/Gamma-Liaison

Altogether, the five New York Mafia families, with some 900 members and 9,000 associates, are said to rake in over $1 billion a year in operating profits. The figure is based on a formula designed by Wharton Econometrics for the President's Commission on Organized Crime. Based on its size, Gotti's Gambino family could be expected to take in more than half of that, with roughly half of the family's income—perhaps $300 million a year—going to John Gotti.

Why, then, is this dominant force in the crime industry not among The Forbes Four Hundred? Simple. That $300 million figure is a myth, based upon a flawed understanding of how the Mafia families make and distribute their money. If Gotti's net worth is even a fraction of the $275 million threshold to The Forbes Four Hundred, we'd be surprised.

For the record, Gotti, who did not file a tax return, at least between 1984 and 1989, claims to have been a $36,000-a-year plumbing supplies salesman for Arc Plumbing & Heating. At one time he sold construction services for a construction company, and these days he claims to sell zippers to the garment industry, where the family controls several important unions. According to his biographers, Gene Mustain and Jerry Capeci *(Mob Star)* and John Cummings and Ernest Volkman *(Goombata)*, he is involved in two or three bars, a disco, a motel, a Chinese restaurant, a school busing service. His wife Victoria owns the couple's middle-class house in Queens' Howard Beach section; his son and son-in-law own the family vacation home in the Poconos. Gotti used to spend time at a condominium at Gurney's on Montauk Point, at Long Island's eastern tip, and he keeps a speedboat—the *Acquittal*. But he owns neither the boat nor the condo. The Gambino family's Manhattan headquarters, the Ravenite Social Club at 247 Mulberry Street, is owned by somebody else.

Lifestyles of the rich and infamous **Gambino family boss John Gotti and the house (in his wife's name) at Howard Beach, Queens that is believed to be his principal residence.**

"I'd be a billionaire if I was a selfish boss, but that's not me," Gotti, bugged by government agents, boasted to an associate a year or so back. Populism pays—in the Mafia as almost everywhere else—and Gotti came to power by promising to share the wealth with the membership.

Gotti contrasts sharply with Colombia's billionaire cocaine lords—or even American mobsters like Moe Dalitz and Meyer Lansky, both of whom evidently accumulated $100 million fortunes and therefore made The Forbes Four Hundred in 1982. Lansky and Dalitz created real business organizations with a hierarchy of managers and operators. But as head of a Mafia crime family, Gotti runs an enterprise utterly different from conventional business organizations—indeed, utterly different from the business as portrayed in the *Godfather* movies, in which Michael Corleone could easily swing a $600 million cash takeover deal.

As retired Mafia boss Joseph Bonanno put it in his autobiography, *A Man of Honor*: "Family membership does not entitle one to a monetary stipend, it simply places the family member in a society of friends who can help each other through a network of connections."

The structure of a Mafia family reflects a feudal organism devised in Sicily a thousand years ago to protect its members from foreign conquerors. Today, in the U.S., the members of a Mafia family still must be of Italian blood. Their only earthly allegiance is to the boss who heads the family—the "don," the father, who gives it focus, direction and shape.

Yet the boss ultimately serves at the pleasure of the independent operators who have chosen to follow him. If he tries to exact too much tribute from them, he winds up without a following, or splattered on the sidewalk in front of a posh Manhattan restaurant. While a John Gotti might do business with a Meyer Lansky, he would never admit Lansky to the family. And a Lansky would exercise more control over his organization—and extract a bigger share of its earnings—than Gotti could ever receive.

Below the boss in a Mafia family is his underboss, a kind of chief administrative officer, and his *consigliere*, an in-house counselor who provides legal or other advice and serves as a sort of family ombudsman. But the real business is done by the various working crews *(regimes)*. The crews are headed by captains (*caporegimes*, or *capos*) and made up of both "made"—that is, initiated—members or soldiers *(soldati)*, and nonmember associates. The working stiffs of the crews are the wiseguys—the street toughs with few employable skills, less inclination to acquire them and a considerable thirst for violence.

These crews are much more than a crime family's operating divisions. They are made up of independent businessmen who pledge fidelity to a particular crime family's boss. "They [the wiseguys] spent every waking hour thinking about how they were going to make money," recalls one-time FBI man Joe Pistone, who as Donnie Brasco spent six years underground in the Mafia. "They did not think or talk much about their wives, girlfriends, families, hobbies. The mob was their job as well as their whole life . . . far more than it is with ordinary 'straight' citizens."

The boss provides the crews with protection, sets policy and allocates territory, resolves disputes among the crews and in the end licenses everything they do. If the boss gets implicated in a wiseguy's crime, the boss tells the wiseguy how to plead, provides lawyers and bail money, bribes judges or law enforcement officers, decides whether and how to intimidate jurors and damaging witnesses.

In exchange for these executive services, a portion of the crews' revenues percolates up through the family's ranks. The crews' soldiers and their associates give up part of whatever they make to their captains; the captains tithe to the boss, underboss and *consigliere*. Gotti's Gambino family even has a house tax: Each captain has to kick in $10,000 a quarter to the family, or altogether nearly $1 million a year, to fund various family services.

"In effect," says Ronald Goldstock, director of the New York State Organized Crime Task Force, "what the members give is essentially a tax; what they get in exchange is government services."

Like legitimate businessmen, the crews struggle to keep their profits up and their costs down, including the

UPI/Bettmann

The don of Greenwich Village **Genovese boss Vincent Gigante, who claims to be mentally incompetent, lives above Soho Oil at 225 Sullivan Street.**

The heads of the five New York crime families and their home addresses were identified by the Senate Permanent Subcommittee on Investigations in 1988 and 1990 reports.

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An estate problem? **Bonanno boss Philip Rastelli lived in this Brooklyn row house until his death (by natural causes) this summer. So far no successor has emerged.**

cost of the services provided by the boss and his captains. When it comes to forking over money to the family, each mobster is "supposed to do the right thing," says Martin Light, a onetime mob lawyer. "If you make ten thousand and you pass up five, that's very nice. That's doing the right thing." But everybody chisels. Says former FBI undercover agent Joe Pistone: "If the score is, say, $200,000, they [the captains] will say the score was $150,000 . . . so they will pocket $50,000 and split $150,000 [with the higher-ups]."

The money comes pouring in from all over, from the wiseguys and their associates, from hijacking, extortion and gasoline bootlegging, from businessmen, corporations and labor unions, from the garment industry, construction, the docks, in dribs and drabs, in chunks and gobs, from tens of thousands of sources. And it goes on no matter what happens. Goes on when the boss dies or is killed, decides to retire or goes to jail. It's a veritable money machine, self-starting and self-perpetuating.

But there is a hazard in doing business with the kinds of people attracted to the mob. As one wiseguy once put it to Pistone: "You can lie, you can steal, you can cheat, you can kill, and it's all legitimate. You can do anything you want, and nobody can say anything about it. Who wouldn't want to be a wiseguy?"

In their propensities to maximize revenues, bosses differ. Gotti's predecessor, Paul Castellano, was greedy and squeezed his captains until the cost of Castellano's services outran

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Yvonne Hemsey/Gamma-Liaison

Carmine lived here
Until he began serving a life sentence in 1985, Colombo boss Carmine Persico lived in this house in Brooklyn. He now runs the family from jail.

their value. Then Gotti was able to drum up rank-and-file support for killing him.

The captains' businesses—gambling, loan-sharking, narcotics distribution and the like—are mainly service businesses with high operating costs and low operating margins. They are businesses that cannot easily be capitalized with commercial bank debt; they cannot be taken public at a multiple of cash flow. Some of these criminal revenues are reinvested in maintaining the businesses—financing loan sharks, for example. But most go to supporting the thousands of bookies, numbers runners and assorted hangers-on who keep the Mafia money machine humming.

Gotti and the other mob bosses have their expenses, too. Gotti reportedly pays his lawyers a minimum of $300,000 a year. There are bills for gambling and partying, high-priced clothes, jewelry and cars, women and booze, tips for bartenders and waiters, luxury hotel suites in Las Vegas, drugs. Gotti is a compulsive and rather irrational gambler who has often been known to blow $100,000 a weekend betting on what anyone else would consider sure losers. Easy take, easy go.

Vincent Cafaro was asked by the Senate Permanent Subcommittee on Investigations what happened to all the money he'd taken in as a Genovese family soldier. "I spent it," Cafaro cheerfully replied. "Just gave it away. As I was making it I was spending it. . . . If I had it to spend, I'd spend $3 million."

Even when there is some extra money lying around, it can't be invested in big houses or luxury yachts. A Mafia boss must adjust his lifestyle to the visible source of his income—the trucking or garbage, vending machine or linen supply business he pays taxes on to keep the Internal Revenue Service at bay.

Some mob money undoubtedly is laundered through numbered accounts in the Bahamas, the Caymans or Switzerland. But not much. "The five families live in New York," says one investigator. "So they reinvest the money in the local community for their own purposes."

Or simply bury it. A former bookmaker recalls borrowing $150,000 from Genovese boss Anthony Salerno, and receiving a shopping bag full of cash wrapped up in newspapers 30 years old. One retired FBI agent still remembers how the bail money one Mafioso posted smelled musty from long-term burial.

But then, Gotti and his ilk don't keep score with money. What Mafia chieftains really want is power and control—the power to tell which companies what to buy from which suppliers; the power to take workers out on strike; the power to tell politicians how to vote. "Men of my tradition," wrote Mafia don Joseph Bonanno in *A Man of Honor*, "have always considered wealth a by-product of power."

In the currency he values, Gotti is indeed a rich man: Many fear him. But in terms of money and tangible assets—let alone morality—he is a piker, and worse.

Capo Codder?
Luchese family boss Vittorio Amuso, captured this summer after a year in hiding and now in jail, lived in this Howard Beach house.

A MESSAGE FROM THE PRESIDENT OF THE REPUBLIC OF CHINA ON TAIWAN

Democracy In The Republic Of China

In recent years, the government of the Republic of China has tried to accelerate the process of democratization. Now, as a result of these efforts, a full-fledged democracy is within reach.

A number of factors may have contributed to this "political miracle." One is the dedication of the ROC's leaders to the goal of democracy. As a matter of fact, ever since the founding of the Republic 80 years ago, democracy has been a national goal, as can be seen in the writings of the ROC's founding father, Dr. Sun Yat-sen, and his successor, the late President Chiang Kai-shek. After moving to Taiwan in 1949, the government decided to realize this goal by stressing democratic norms through education, and by instituting a system of local self-rule. Both proved to be very successful, and led to the subsequent democratic transformation.

In Taiwan, every student knows something about democracy from schooling. From the elementary school level on up, the students are imbued with democratic ideas and democratic norms through civics courses. They also have opportunities to participate in school elections to choose their leaders. These experiences undoubtedly affect their views later on the merits and shortcomings of various forms of government.

Local self-rule has played an important role in facilitating democratization in Taiwan as well. Elections for city mayors and county magistrates, members of city and county councils, and members of the provincial assembly have been held regularly in the past 40 years or so, and are quite competitive. Elections for supplementary and additional members of the national legislature have also been held since 1969. One thing particularly worth mentioning is that at the end of 1991, the Second National Assembly shall be elected with renewed mandate to work on the revision of our Constitution, so that the process of democratization in the Republic of China would be given full legal basis and expedited. In fact, by the turn of 1992-1993, all three central parliamentary bodies of the country would have been re-elected, reflecting in full the true spirit of modern democracy.

In addition to the efforts of the national leaders, there are other factors which may have contributed to the process of democratization in Taiwan. For instance, rapid economic development in the past four decades has created a large middle class and a pluralistic social order which may have been important factors facilitating liberalization and democratization throughout the country. Moreover, in the process of economic development, the ROC, unlike many other developing countries, has achieved a high degree of economic equality. Political stability in Taiwan can, to a large extent, be accounted for by this fact. Thus, it is not surprising that democratic transformation in Taiwan has been quite orderly and peaceful.

The Republic of China has undergone drastic and positive changes in the past few years. This is the result of the efforts of both the government and its people. We are also thankful to our foreign friends for their support and assistance, and would like to share our experience and achievements with those countries striving for prosperity and democracy.

Lee Teng-hui
President of The Republic of China

REPUBLIC OF CHINA ON TAIWAN

TAIWAN

80

Eighty Years Of Progress

The government of the Republic of China on Taiwan has earmarked more than $315 billion for a six-year plan designed to develop infrastructure, raise the standard of living and improve transportation, communications and electric power resources.

This blaze of activity marks Taiwan's 80th anniversary. There is much to celebrate: the principles of founding father Dr. Sun Yat-sen and the efforts of 21 million hardworking people have created an economic miracle on an island nation the size of Connecticut.

The top Taiwanese leaders, who warmly remember American support for Taiwan, are complemented by a younger generation of highly educated and increasingly powerful directors who oversee various elements of the six-year plan. Most have degrees from universities in the U.S., and all strongly encourage American bidding on the enormous range of projects.

As these projects are carried out, Taiwan's economy, which already has the world's largest per capita foreign reserves ($72 billion), will blossom in many new directions. Taiwan can act as a springboard for American companies to successfully compete with Japan on a number of fronts in the most dynamic growth area in the world: the Pacific.

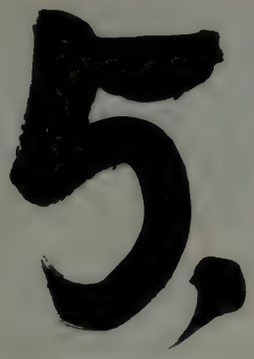
IN THIS SPECIAL REPORT

Getting Started in Taiwan • Highlights of the Six-Year Plan

Two Key Publications • The Science-Based Industrial Park

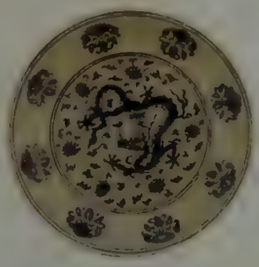
The Petroleum Industry • Transfer of Technology

The Republic of China's 80th Year

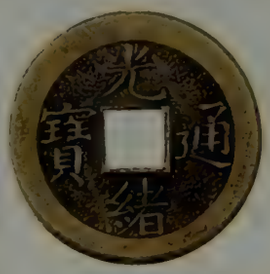


Calligraphic stroke style
typical of the Oracle Bone carvings
Shang Dynasty (1766-1111 B.C.)

Jade ornament
*Chow Dynasty (1122 B.C.-221 B.C.)**

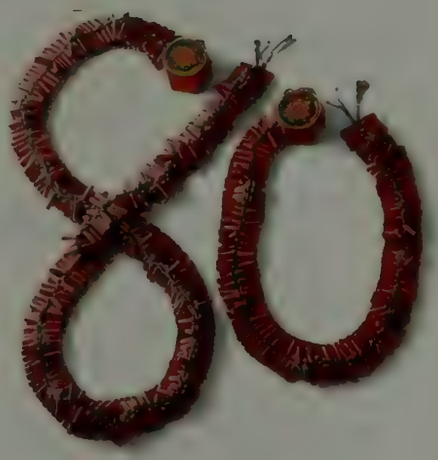


Hsuan Teh Plate
*Ming Dynasty (1368 A.D. - 1644)**



Bronze coin
Ching Dynasty (1644-1911)

*Photo courtesy of the National Palace Museum



When most people think of Taiwan the first thing that usually comes to mind is the omnipresent "Made in Taiwan" label. Today, Taiwan is also gaining world renown as a hi-tech business and manufacturing center. Or as some call it, "Asia's Silicon Island."

But as visitors to Taiwan discover, there is much more to the prosperous island than world class trade and income statistics.

Now in its 80th year, the Republic of China, whose seat of government is temporarily located in China's island province of Taiwan, represents the finest hour in China's long cultural heritage. The republican era has brought not only unprecedented prosperity, freedom and democracy to a fortunate portion of the Chinese people, but also cultural renaissance, backed by the wisdom and glory of more than 5,000 years of continuous cultural heritage, the best of which is still uniquely preserved and nurtured on Taiwan.

Whether you visit the National Palace Museum, which houses the world's finest collection of priceless Chinese antiquities, or sample world renown cuisine from all parts of China, you will discover the magnificence of China's past, uniquely blended with the modern comforts of today's Taiwan.

The Republic of China's 80th Year. Celebrating the finest hour of China's glorious, 5,000-year cultural heritage.

TAIWAN

REPUBLIC OF CHINA

GETTING STARTED IN TAIWAN

An excellent contact point for companies seeking to do business in Taiwan for the first time is the China External Trade Development Council (CETRA). CETRA is located in the new, ultra-modern "four-in-one" complex of the Taipei World Trade Center. CETRA also operates 30 branch offices worldwide, with three in the U.S. — Chicago, New York and San Francisco — set up to provide free, detailed information about doing business in Taiwan.

Tom Lin, CETRA exhibition director, says newcomers can rent a 440-square-foot office in the complex for approximately $1,000 per month on a one-year contract, after placing themselves on the waiting list.

"This is centralized one-stop shopping, both for the exhibitor and the visitor," Lin says. Rental spaces are also available in the International Trade Building, the tallest in the complex, for about $18 per square foot per month. Tenants have automatic membership in the luxurious World Trade Center Club. Located on the top two floors, the Club offers facilities for relaxing and dining along with a business center.

The adjacent Taipei International Convention Center houses two brand-new exhibition halls designed to accommodate at least 1,000 people. There's also a banquet hall and a huge, theater-like 3,100-seat hall, as well as equipment for simultaneous translation, food and beverage facilities and a venue for almost any sort of meeting.

Built onto this marvelous complex is the Grand Hyatt Hotel in Taipei. According to General Manager Edward Tai, the Grand Hyatt is well-suited to Western travelers, with large rooms and beds, top quality Western food and a convenient location in the same complex as the World Trade Center.

CONTINUED ON PAGE 6

Taiwan can act as a springboard for American companies to successfully compete in the world's most dynamic growth area, the Pacific region.

HIGHLIGHTS OF THE SIX-YEAR PLAN

High-Speed Rail Project

A new "bullet" train, running along twin tracks the 220 miles from Taipei to Kaohsiung, is planned at a cost of $13.6 billion. The system is designed to carry 200,000 people at a speed of 186 miles per hour.

•

Integrated Freeway Network

Over the next 20 years, 620 miles of new freeways will be built in Taiwan. Traffic congestion on Taiwan's existing highway network has demanded the swift implementation of an overall scheme, similar to the Interstate Highway System in the U.S.

•

The Taipei Rapid Transit System

More than $5 billion will be spent over the next two to three years on the Taipei Rapid Transit System (TRTS), a top priority subway system designed to relieve the capital city's traffic problem.

Nearly 55 miles of 18-foot diameter tunnels in four main lines are expected to be completed in 1997, and construction of an additional 56 miles of rail tunnel is expected to last into the next century.

•

Power Station Developments

Eight separate thermal power projects located around the island will be carried out to meet Taiwan's growing electricity demand. Most of the generators and turbines are expected to come from the U.S. A plan for Taiwan's fourth nuclear power plant is also in the works.

•

Pollution Control

A countrywide series of pollution control projects are being implemented through Taiwan's Environmental Protection Administration. These include: municipal incinerator projects, industrial waste disposal centers (scheduled to be built in three locations over the next three years) and sewage system projects in Taipei and Kaohsiung.

n Taipei...
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not creative mathematics, simply a statement of fact: adding four world s business facilities together makes one premier center for conducting ness in Taiwan - the Taipei World Trade Center.

Taipei World Trade Center consists of a comprehensive exhibition facility, ase-of-the-art convention center, an international office building and a super ury hotel.

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he TWTC Exhibition Hall contains 163,000 square meters of floor space, cluding a grand exhibition showground for Taipei International Trade Shows d permanent product displays at the Export Mart and Import Mart. With the ost advanced meeting facilities in Asia, the Taipei International Convention enter features twelve multi-purpose meeting rooms and a 3,300 seat main hall. he International Trade Building, a modern 34-storey office building, houses ade-related companies and agents. The Club on the top two floors is an xclusive social establishment for the international business community. The 72-room Grand Hyatt Taipei offers a wealth of luxurious facilities, unparal-eled services, advanced technology and value for money.

Whether it be business meetings, conferences, trade shows, entertainment or ure relaxation, the staff and facilities at the Taipei World Trade Center ensure hat you get the most out of your visit to Taiwan.

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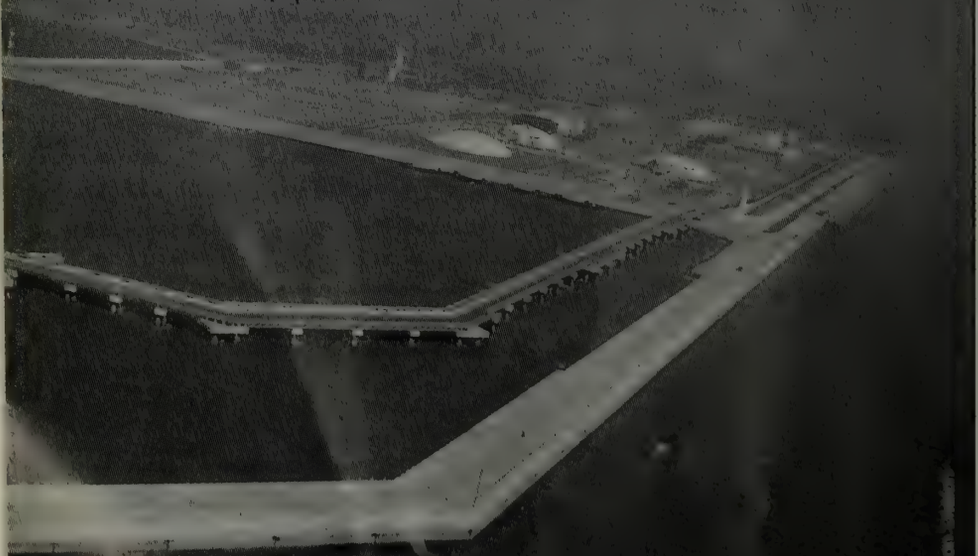

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TAIWAN 80

TWO KEY PUBLICATIONS

The leading business publication in Taiwan is called *Excellence* magazine, which reprints articles from *Forbes* magazine translated into Chinese. With a circulation of nearly 45,000, *Excellence* won Taiwan's Golden Tripod award last year as the best magazine in the business category.

According to Publisher Chris Lin, *Excellence* also provides a computer database called the "Excellence Business Data System." A team of 20 people collects business-related newspaper and magazine articles for the database. The system uses Library of Congress classification, making it easy for members to find information on any subject. "A lot of management consultant companies, law firms and advertising companies use us," says Lin. Membership costs about $1,500 per year, and American users can receive information by fax the same day.

A new international Chinese language business magazine called *Forbes Zibenjia* ("Capitalist Tool") has been launched by Hong Kong publishing tycoon Albert Chang. Chang obtained a license from *Forbes* to publish translated articles in this new magazine, which is aimed at Chinese-speaking international businessmen.

Excellence magazine provides *Forbes Zibenjia* with business stories and helps with circulation, subscription sales and marketing in Taiwan. Chang says most readers of *Forbes Zibenjia* will be Chinese capitalists in Singapore, Malaysia, Hong Kong and Taiwan.

"The quicker information flows, the faster a society will develop," says Chang. "The reason Chinese-speaking business leaders are so successful is because they have adopted an international approach. *Forbes Zibenjia's* approach will not only report the latest financial news and developments, but also provide an important communication channel for all Chinese societies worldwide."

TAIWAN 80

CONTINUED FROM PAGE 3

A valuable feature of the four-in-one complex is the Taiwan Export Products Display Center. Potential buyers can stroll through the neatly organized displays of every sort of product imaginable, from computers to mountain bikes, and drop a card in a slot to have free information sent to them.

Another valuable starting point for companies pursuing new business opportunities is the American Institute in Taiwan, an organization that provides American companies with detailed information about what's happening in Taiwan.

The Institute's "Summary of Major Projects" in the six-year plan gives valuable contact names and addresses and provides a detailed analysis of the scope and nature of each project.

THE SCIENCE-BASED INDUSTRIAL PARK

An hour's drive south of Taipei lies the "Silicon Valley" of Taiwan, called the Hsinchu Science-Based Industrial Park. Surrounded by two universities and two research institutes, the park was set up by the ROC government in 1980 to foster high-tech industries.

"Last year, Taiwan made 15% of the world's personal computers, and half of them came from the park," says Director General Dr. Steve Hsieh. "The best way to beat Japan Incorporated is to team up with us," he adds. Dr. Hsieh seeks American high-tech companies to locate in the park and work with local engineers, especially in research and development, for the production of computer components such as integrated circuit chips and D-RAMs.

The industrial park's administration provides research and development grants of $74,000 for accepted proposals with an "innovative purpose." The administration also matches funds on a 50/50 basis for product development where spending is greater than $370,000.

"We want research and development, and we encourage it. Protection of intellectual property rights is an important and major concern of our science and technology policy,"

HIGH-TECH INVESTMENTS GROW FAST AT SCIENCE PARK, TAIWAN.

Since its inception in 1980, Taiwan's Science Park has grown into Asia's most dynamic center for high-tech industries. Leading names such as AT&T, Philips, and Acer are reaping the benefits of this unique environment. Today there are 131 companies engaged in advanced work on Computers & Peripherals, Integrated Circuits, Telecommunications, Opto-electronics, etc. By 1996, it will be a world class "Science City".

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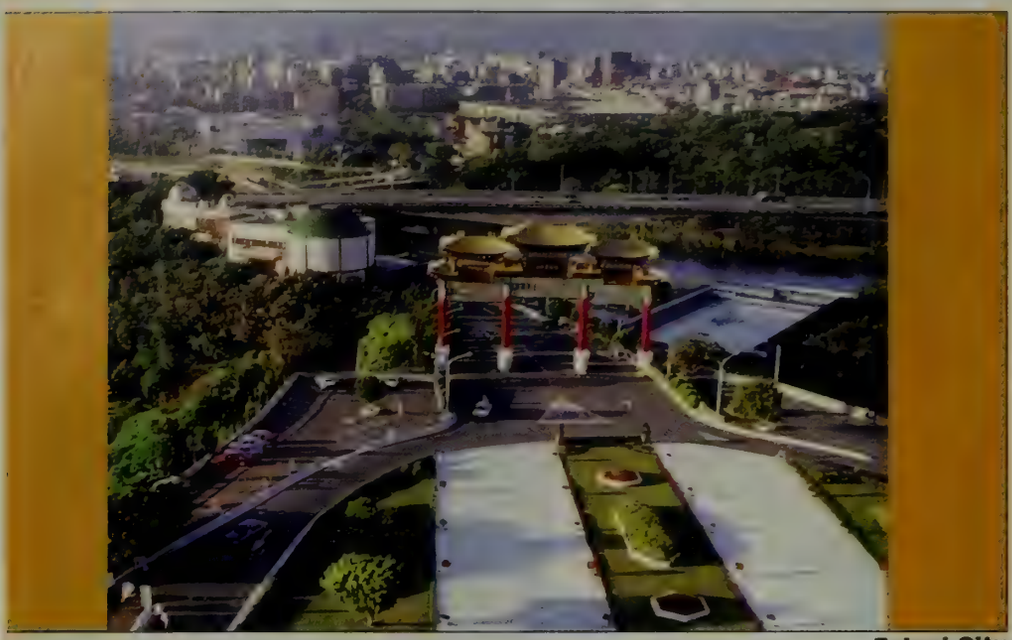
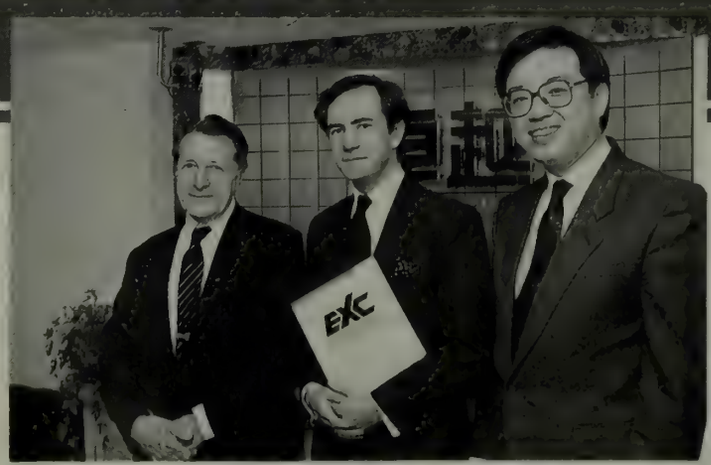


Taipei City

says Dr. Hsieh.

The park, which grew by 15% last year, is the home of 130 overseas companies, including AT&T, IBM, AST Research, WYSE Technology, Texas Instruments and many others. "Our strength is our abundant supply of engineers," comments Dr. Hsieh.



Christopher Forbes (center) and Caspar Weinberger (left) paid a courtesy call on Chris J.F. Lin (right), Publisher of Excellence Business Monthly April, 1990.

How to Profit in Taiwan with the EXC Group

EXCellence, the leading business magazine in Taiwan, provides in-depth market trends analysis, an overall picture on economic and industry conditions, and up-to-date financial market reviews.

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THE PETROLEUM INDUSTRY

The value of Taiwan's petrochemical industry is about $44 billion per year, representing one-third of Taiwan's total manufacturing output.

Taiwan's state-owned oil company, Chinese Petroleum Corp., is building Taiwan's fifth naphtha cracking plant. Its construction has been contracted to the American firm M. W. Kellogg Co. at an estimated cost of $385 million. The plant, which will produce ethylene and other base components that are used for making many types of resins and plastics, will be located near the southern port city of Kaohsiung.

Other projects include an expansion of CPC's liquefied natural gas (LNG) receiving station in southern Taiwan, at an estimated cost of $704 million, which will be completed in late 1994.

A feasibility study for a northern LNG terminal has been carried out for a location in the Tao Yuan area near an existing refinery.

TRANSFER OF TECHNOLOGY

Nearly all of Taiwan's senior managers involved with the six-year plan stress the importance of American participation in all aspects of Taiwan's development: engineering, construction, high-tech development, trade and, most importantly, friendship at all levels.

They point out that the reason the Japanese are so successful is because they communicate with people in the field, at all levels, and

work the market from the bottom up. Taiwan's leaders call upon American companies to do the same.

According to K.S. Sheu, director general of Taiwan's Board of Foreign Trade, the Taiwan market is open to 98% of all imports. "Liberalization is my government's firm policy, and we shall not change our course," he says.

Sheu says that in order to reduce statistics like last year's unacceptable $7.6 billion trade deficit with Japan, Taiwan is placing a high priority on increasing exports to Japan and persuading importers to find suppliers in the U.S. and Europe. Total imports to Taiwan reached $54.7 billion last year, and Sheu estimates imports will reach $95 billion by 1996 as a result of the six-year plan.

The Executive Secretary of the Public Construction Board, longtime engineer Arthur Y. Chen, expresses his hope that per capita income in Taiwan will increase from the current $8,000 per year to $14,000 per year at the end of the six-year plan.

Dr. Shih-Chen Yang, director of the Industrial Development Bureau, adds that Taiwan is an ideal regional base for operations in Southeast Asia: "Here, it's easier to find capital and make joint ventures. You can be sure of government support, technical manpower and a good general technology level."

As the Republic of China on Taiwan celebrates its 80th anniversary this year with more prosperity and a brighter future than ever before, the people look across the Pacific to their innovative and historic American allies to help build a modern, free and high-tech economic power house.

Author Stuart Becker is based in Hong Kong. He specializes in the Pacific region and the construction industry. Design: Zaino Design, New York City

ADVERTISEMENT 8

Taiwan– Plant A Seed And Reap The Future.

The Republic of China on Taiwan has followed the path of free economy and achieved legendary success in its national development. This year, the government, continuing its pro-business attitude in the early 1950's, launches the six-year National Development Plan. Three-hundred and four billion U.S. dollars will be spent on upgrading the nation's infrastructure in an ambitious attempt of raising Taiwan to the status of a modernized industrial state.

Society has not been left behind in Taiwan's economic transformation. The liberal economic policy and the traditional Chinese emphasis on education have given a solid ground for the processing of democratization of the Republic of China. Unceasing efforts in the past years have made Taiwan one of Asia's most favorable places for investment. Each year, Taiwan turns out over 35,000 engineers and awards about 40,000 degrees in the hard sciences. Many of them have had years of overseas advanced training and working experience at the highest levels of research with major international firms.

Nature has also cooperated in Taiwan's transformation. Situated at the center of the world's most fast growing region, Taiwan enjoys easy access to all of Asia's markets. Our experience in Asia offers exciting opportunities for joint regional investment. Not only can we support sophisticated high-tech development, but our strong local economy also presents both market and service oriented investment opportunities. The Republic of China offers your investments the stability, sophistication, and confidence of a free society. Taiwan, the best place for your investment in Asia.

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Ministry of Economic Affairs
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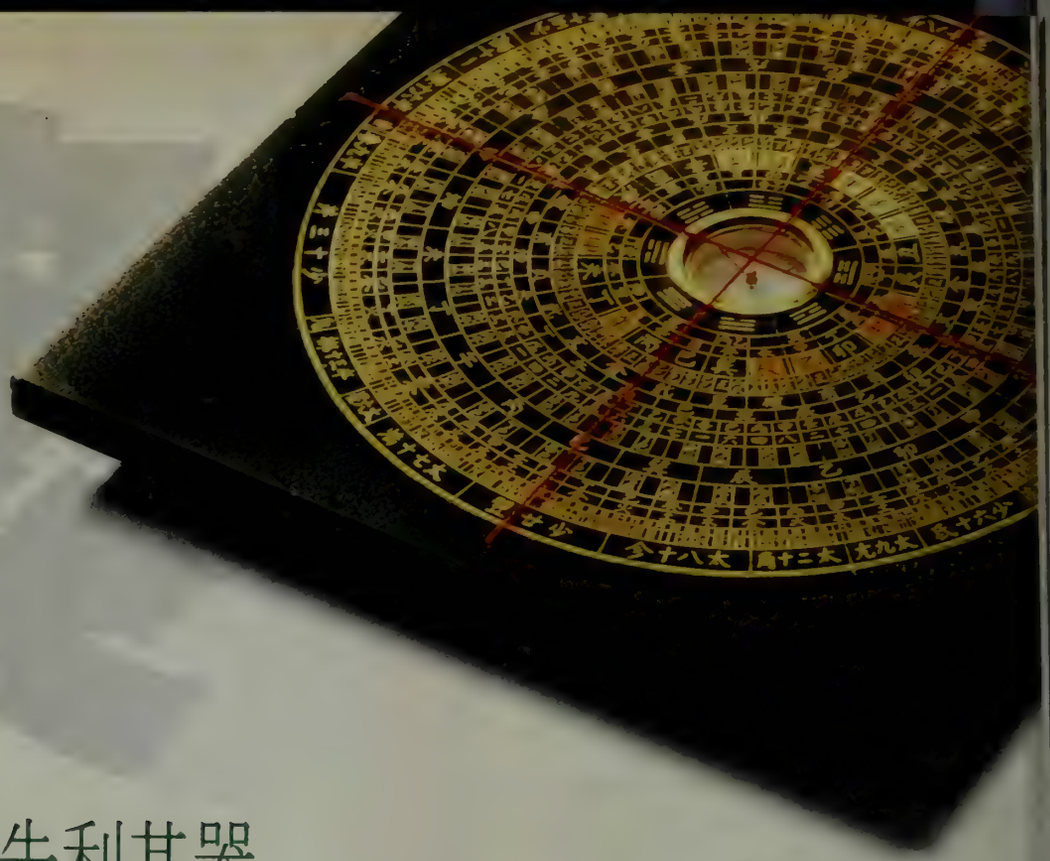

工欲善其事，必先利其器

EXTRAORDINARY OPPORTUNITIES REQUIRE EXTRAORDINARY TOOLS

This is a ***feng shui*** (風水) compass. It's a tool that's used to place your home or office in the perfect position to prosper. Sound ridiculous? Maybe so. But consider this: the countries where this compass is used extensively—Hong Kong, Taiwan and Singapore—are among the most prosperous countries in the world today.

Forbes Zibenjia—the new Chinese ***Forbes*** business magazine—is a similar tool. It will put your products or services in the perfect position to prosper: right in front of tens of thousands of the wealthiest Chinese-speaking people in the Pacific Rim.

It will be the first magazine in history to be printed in two types of Chinese characters—the simplified characters used in the People's Republic of China, Singapore and Malaysia; and the traditional characters used in Taiwan, Hong Kong and among the overseas Chinese. It will also be the first Chinese business magazine with incisive local journalism combined with the proven ***Forbes*** "No guts, no story" philosophy.

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The inaugural issue of ***Forbes Zibenjia*** has already been sent out to over 50,000 of the most influential Chinese businessmen in the Pacific Rim. And they've indicated they want to see more of the same. So the launch issue, planned for October, will be the biggest Chinese-language media launch ever in the region, with over 100,000 copies being distributed.

Today, the Chinese-speaking capitalists of the Pacific Rim are the world's biggest market for products, services and major projects. They constitute the decade's most extraordinary opportunity.

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In the 1980s a rare confluence of trends produced national prosperity and a large number of personal fortunes. If history repeats, both may level off.

The pendulum swings back

By Kevin Phillips

Kevin Phillips' strong suit is not economics but politics. A strategist for Richard Nixon in the 1968 presidential campaign, Phillips is now a neo-populist and the author of the bestselling *Politics of Rich and Poor* (Harper-Perennial, $9.95). He argues that the Reagan years were a period when the rich got richer and Joe and Jane Public went threadbare. Now, he writes, the average American has caught on to the racket and the Nineties are going to be bad for the rich. Phillips thinks the Democrats can return to the White House if they can harness the resentment toward wealth that Phillips believes is at large in the land.

A passionate critic of the supply-side school, Phillips glosses over the fact that the periods he considers times of excess—the late 1800s, the 1920s and the 1980s—were periods of growth that greatly enhanced U.S. living standards. But despite the weakness of his economic arguments, Phillips may have a point when he argues that envy of the rich and well-to-do is a potent political force if harnessed. He seems to spell out the political/economic agenda of American liberals for the rest of this century. If Phillips is correct about political trends in the 1990s, it is bad news for the U.S. economy because, as George Gilder points out on page 38, when the rich get poorer, so does everyone else.

Here is the political/economic future as Phillips sees it.

TIDES OF moneymaking reverse. Sixty years ago the Great Depression slashed the number of U.S. millionaires by half. More recently, the inflationary wave of the late 1970s that lifted so many Texas promoters, Oklahoma oil independents and Idaho potato growers to millionaire status was followed by the mid-1980s commodity states bloodbath. The early 1990s devastation of real estate, financial services and portions of high tech, in turn, has already broken or bankrupted thousands of Reagan-era high rollers from Maine to California and may have further to go.

Bettmann

William Jennings Bryan

Thrice unable to win the presidency, he nevertheless helped bring about many liberal reforms, not least of them the popular election of senators and the income tax, introduced in 1913.

The big question for the 1990s is whether we will see a normal transition to a slower level of wealth accumulation, or a once-every-50-years megatrauma of imploding assets, or some in-between pattern of reshuffling and minor bloodletting in The Forbes Four Hundred.

A little historical context is in order. The 1980s was the latest of three eras in U.S. history when the ranks of the rich expanded at record rates with the help of a rare convergence of favorable circumstances. These included: conservative government, little regulation, fashionableness of business and finance, skepticism toward labor, tax cuts, plentiful liquidity and easily available credit.

The result of all these favorable trends in the 1980s was that the number of millionaires increased from about 600,000 to roughly 1.5 million, the ranks of decamillionaires expanded from less than 40,000 to about 100,000, and the list of billionaires rose from 13 to 71.

The two previous cyclical parallels to this successful acquisitiveness in the 1980s were the Gilded Age, from the 1870s to the mid-1890s, and the Roaring Twenties. The number of millionaires jumped from less than 1,000 in 1870 to just over 4,000 in 1892, according to a *New York Tribune* survey at the time (FORBES, *Oct. 24, 1988*), and the U.S. got its first centimillionaire, William Astor.

The Roaring Twenties, in turn, saw the number of millionaires roughly treble, to 20,000, while the U.S. also got its first billionaire: Henry Ford or John D. Rockefeller (record keepers are not sure who got there first).

But the pendulum swings. At some risk of oversimplification, what brings these heydays of wealth to a close is a threefold set of developments: First, it becomes obvious to ordinary Americans that wealth is surging at the top, but not in the middle. Second, more and more citizens perceive wealth as a reward for abuse, not achievement, as the ranks of the wealthy are invaded by the likes of Ivan Boesky, Michael Milken, Leona Helmsley and Charles Keating. Finally, there comes the disenchantment of a significant economic downturn related to the implosion of the debt-and-speculative bubble pumped up during the go-go period.

When all three provocations are in

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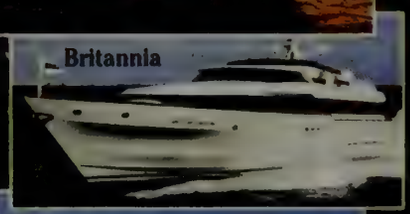

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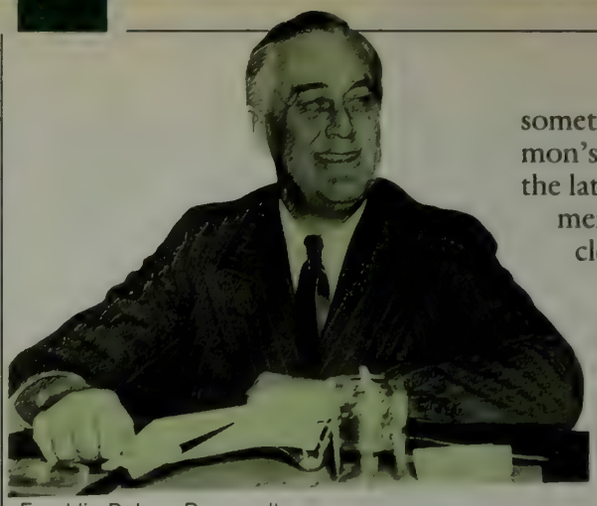


Brown Brothers

Franklin Delano Roosevelt

A product of the ruling elite, he capitalized on the antibusiness sentiment spawned by the Depression to increase the government's role in the economy.

place, public perceptions, politics and economic conditions start to change in ways detrimental to the sort of rapid wealth accumulation seen in the capitalist boom periods. For example, after the Gilded Age ended, back around the turn of the century, the subsequent populist-progressive era brought a progressive income tax, the advent of Teddy Roosevelt and trust-busting, some resurgent inflation, muckraking journalism, increasing economic regulation, the beginning of state initiative-and-referendum mechanisms.

The subsequent collapse of the 1920s speculative bubble into the reformist 1930s produced a gathering turn toward higher taxes, tougher regulation and progressive politics that blamed business and finance for previous abuses. By 1936 the number of millionaires had fallen by half.

Countertrend periods like these, by restoring a needed balance in the political economy, constitute a unique strength of American capitalism. No revolutions, barricades or overt socialism have reared their heads here because reformism, progressivism and populism have been able to deal with economic excess at the polls. The 1990s should at least partially repeat the pattern.

Indeed, the dynamics are already in place for a reversal. Informed (and often stunned) by the compendia of great fortunes, merger fees and CEO compensation packages published in this magazine and elsewhere, squeezed middle-class Americans now know the rich got a lot richer, sometimes through abuses. Salomon's John Gutfreund has provided the latest headlines in this disillusionment stage of wealth's cultural cycle. At the same time, sinking real estate values spreading out from the Northeast are making many middle- and upper-middle-class families feel insecure about their financial futures.

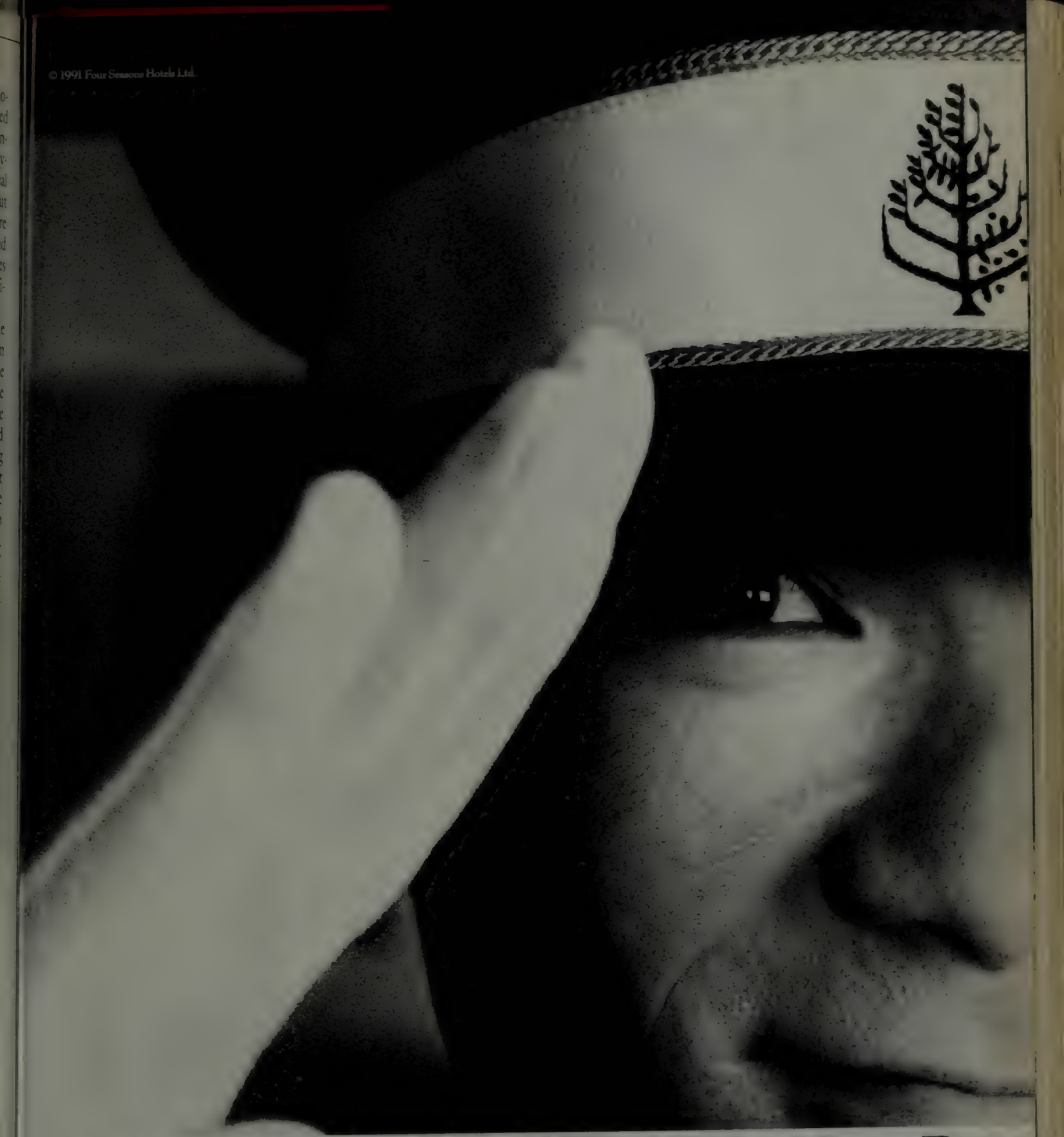
Consider some of the signs of a new populism spreading through the country. Late 1990 national polls by Clark, Martire & Bartolomeo found 55% of those sampled saying that millionaires had gotten where they were by taking advantage of others; one respondent out of three said the country would be better off without any millionaires, up from one out of four a decade earlier.

Back in December, an NBC News/*Wall Street Journal* sampling found 84% of Americans, including fully 80% of the Republicans, favoring an income surtax on millionaires. Seven months later, another NBC/WSJ poll found 81% national support for the Democrats' Gore-Downey proposal significantly increasing taxes on people making over $140,000, while reducing taxes for lower- and middle-income families.

A recent Roper poll suggested that the public was losing faith in the profit system as well as in the rich. At the beginning of the 1980s the best-informed tenth of the public—so-called influential Americans—had given majority support to the view that business profits were plowed back to improve performance and efficiency, and disagreed that most profits go to make rich people richer. But by 1991 a 52% majority of these opinion molders said profits mostly go to make the rich richer.

The polls just cited suggest that Democrats have now found a politically salable approach: targeting the richest 2% or 3% of Americans. This is in contrast to the fumblings of New Jersey Governor James Florio, whose increase of state income tax rates in late spring 1990 on individuals making over $35,000 and families over $70,000 offended too many middle-class citizens.

On the state level, budget crises have forced even Republican gover-



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ors to approve higher income ax rates for persons with six-gure incomes, a fiscal trend hat is likely to spread to the rass roots in the early 1990s.

On the federal level, it's arder to predict how far the ew populism will push up ncome tax rates. However, ast October, during the pre-lection budget debate, the Demo-rats made major gains by blistering George Bush for advocating a capital ains rate cut while opposing their illionaires' surtax proposal.

The current situation, wherein the ch aren't taxed more heavily than uch of the middle class, is both the epublicans' Achilles' heel and the De-ocrats' proven historic opportunity. or the first half of 1991, however, key aders, especially House Speaker homas Foley and Ways & Means hairman Dan Rostenkowski, side-epped these themes and images, while e party delivered only mild criticisms f the 1990-91 recession despite the ountry's worst-since-the-1930s crises commercial real estate, bank solven-and state and local finance.

Many Democratic political profes-onals bemoaned this meekness for s cost in opportunity and credibility, ut this timidity also reflects a unique olitical condition of 1980s and early 990s economic policy. In contrast ith previous go-go periods, tax and udget policy in the 1980s was in me measure the product of con-essional Democrats as well as of ecutive branch Republicans. Far om trying to indict the decade's nservative economics, congression-

Democratic leaders like Rosten-wski have tried to protect the als and policies they helped work t from 1986 to 1990.

Thus, wealthy Americans ill profit if collaborative ngressional Democrats cceed in defusing their n party's 1991-92 in-ctment of the GOP on tax, dget and speculation ues. Indeed, com-ned with the benefit to e GOP and George Bush the Persian Gulf war hich helped push the eco-mic downturn off the front ges for many months), lack of a

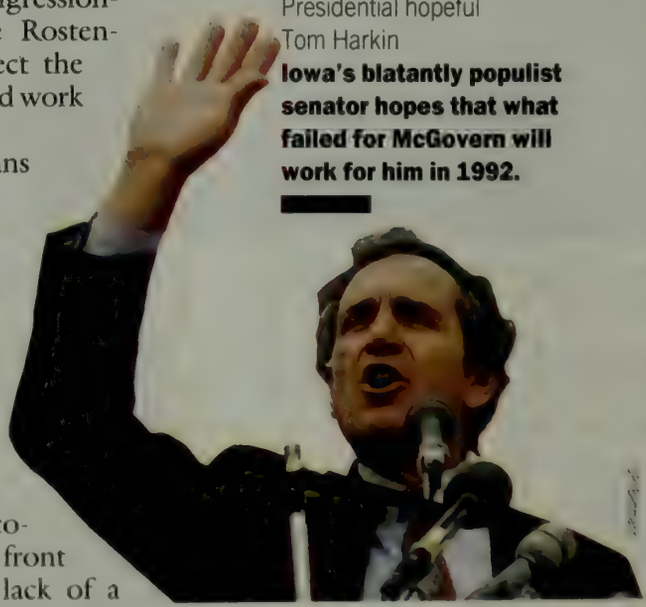
UPI/Bettmann

George McGovern
Spurning his brand of populism, voters buried his presidential candidacy in 1972.

Democratic populist follow-through, a cutting edge on economics, could all but eliminate the Democrats' chance of a 1992 presidential victory. If so, the Republican White House will still be able to counter antiwealth trends at the federal level.

Still, there are caveats. The Republicans' political influence starts to peter out below the federal level. The odds are that at the state level, taxation of wealth is going to grow, via higher income taxes, taxes on services and such. Washington could even start debating some kind of federal-state tax tie-in, so as to reduce the disparity between high-tax states like New York and California and current tax-haven states (just as the architects of European unification recently imposed a minimum level of value-added taxes on all EC members to prevent border warfare between merchants).

Economic populist issues could also play a significant role in the Democrats' 1992 presidential campaign, now that Iowa Senator Tom Harkin, Nebraska Senator Bob Kerrey, Arkansas Governor Bill Clinton and ex-California Governor Jerry Brown have tossed their hats in the ring. For now, it's mostly rhetoric, but if party leaders start believing they have a 1992 opportunity, the poll results laid out several paragraphs back could begin to resonate.



Presidential hopeful Tom Harkin
Iowa's blatantly populist senator hopes that what failed for McGovern will work for him in 1992.

Most likely, in terms of probable political pressures on wealth for 1992-96, is a George Bush reelection that—like the 1956 Eisenhower, 1972 Nixon and 1984 Reagan re-elections—more or less reaffirms the status quo in Congress. But if Democrats roughly maintain their current margins in the U.S. Senate and House in 1992 (and presumably again in 1994), they'll have four years to lay the groundwork for retaking the White House in 1996 around issues like relative tax burdens and fairness, national health insurance, stepped-up economic regulation (environment, health, corporate governance, finance etc.), political campaign contributions reform, and somewhat more economic nationalism.

The rich, in short, should not rest easy. Current trends and history suggest that the 1990s will continue to move away from the fiscal and laissez-faire theology of the 1980s, as the Teddy Roosevelt era turned away from the Gilded Age and the New Deal castigated the economic permissiveness of the 1920s.

The wealth holders of the 1990s will probably face less of a populist-progressive reaction than we saw at the turn of the century or in the 1930s. Nevertheless, the polls are already saying that the rich will face harder sledding. Pressures are building for higher top-bracket income taxes; there is voter disillusionment with the profit mentality and anger at corporate CEOs paying themselves many millions of dollars a year.

The bottom line is that the circumstances that enabled the Dow Jones industrial average to more than triple between 1982 and 1989, simultaneously enabling the combined net worth of The Forbes Four Hundred to more than triple, aren't likely to be there in the years immediately ahead. The pendulum is swinging back. ■

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Profile in Quality #33: Innovation

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John Rangos realized much of Pittsburgh's industrial waste wasn't as worthless as most people thought. Thus was born one of the country's newer and larger personal fortunes.

Turning garbage into gold

By Marcia Berss

AS THE DISSIPATION of the Kennedy fortune shows *(see p. 34)*, it is easy to slip from the pinnacles of wealth. But wealth is also upward-slippery. About the same time the Kennedy fortune was reaching its apogee, John Rangos was starting the company now known as Chambers Development Co. Today Chambers Development has a stock market value of $1.7 billion, and Rangos is worth over $520 million.

Rangos was born near Pittsburgh in 1929. When his Greek immigrant parents divorced, he and his mother went to live with his maternal grandfather. When his mother remarried, they moved in with his stepfather, who ran a restaurant.

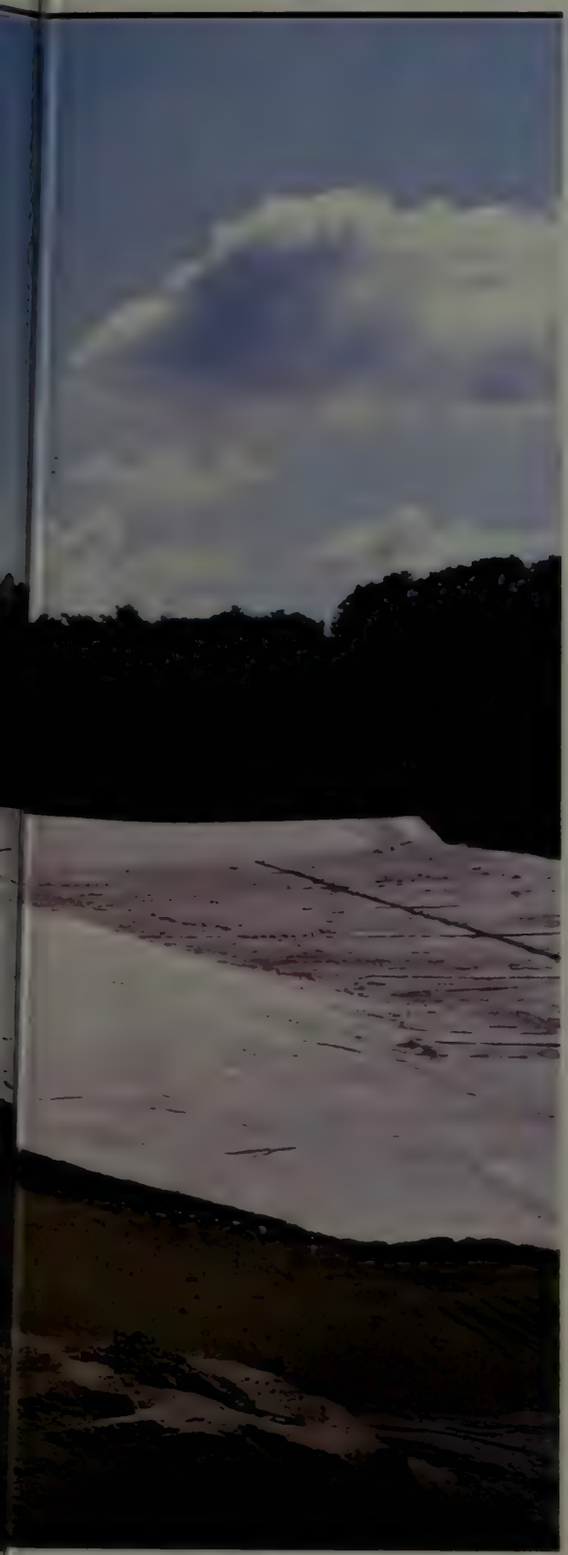
After graduating from high school in Pittsburgh, Rangos spent a year at Houston Business College, then enlisted in the Army in 1951. He fought in the Korean War, returning to Pittsburgh in 1954. After a stint as an independent sales agent with a manufacturer, Rangos took his savings to start his own business in 1960.

As he drove around the aging industrial city, Rangos was struck by the mountains of coke ash, the waste byproduct of Pittsburgh's coal and steel empires. Most people saw these mounds as blights on the landscape. Rangos saw money.

The coke ash heaps were free—coal companies were glad to give them to anyone who would haul the waste away. Yet the waste was not without value: It contained recoverable coke that could be sold as fuel, and the unburnable residue could be made into antiskid material for highways and cinder building blocks. To get the capital he needed to build a manufacturing facility, Rangos convinced bonding companies of the viability of his concept. As he produced his fuel,

cinder blocks and roadbed material, he factored his accounts receivable to raise additional working capital to plow back into the business. It was a shoestring operation in those early days, but the strings held.

From recycling coke ash, Rangos began doing the same with waste slag, the by-product of steel mills, which became the bases for highways and buildings. From coke ash and slag, he began handling boiler ash for coal-fired electric utilities. In this venture he built and ran disposal sites, most on the property of his utility customers. Almost without knowing it, Rangos had entered what has become a highly lucrative business, owning and operating landfills.



Alan Dorow

Working with utilities taught Rangos a lesson that would reward him well years later: He could not succeed in the waste business without support from the local community. "I learned even a lady with a poodle that got its paws cruddy had to get attention," recalls Rangos. "Dealing with the public had to be an open process."

By the mid-1970s, Rangos began to see opportunities in municipal garbage. Until then, the garbage collection business had focused mainly on trucks—giants like Waste Management started as haulers in the 1960s; almost as an afterthought they bought landfills to save dumping fees paid to landfill operators.

But with his experience in operating boiler-ash disposal sites, Rangos thought it made sense to worry about where to put the garbage first, and worry about getting it there second. Rangos: "I knew that without a receptacle, those wheels are very vulnerable. All someone had to do was shut off the end, and he'd beat [the hauler] out of municipal bids." Besides, landfills were (and are) more profitable than operating garbage trucks.

So Rangos began to buy landfills, and later backed into acquiring little haulers to service them. Today Chambers Development owns and operates 14 landfills centered on the mid-Atlantic states, with total capacity of 15,000 tons of garbage per day. By next year, Rangos says, the company will have 20 landfills, bringing Chambers Development's total capacity to 25,000 tons per day.

When he began buying landfills in the mid-1970s, Rangos' timing looked terrible. The environmental rules governing landfills were just getting tougher. The new regulations scared a lot of operators, many of whom had built their landfills to minimum standards and now faced shutting them down or investing large sums to bring them up to code.

Chambers Development's John Rangos
Landfills first, then trucks.

Rangos met the environmental challenge head on. Here's how:

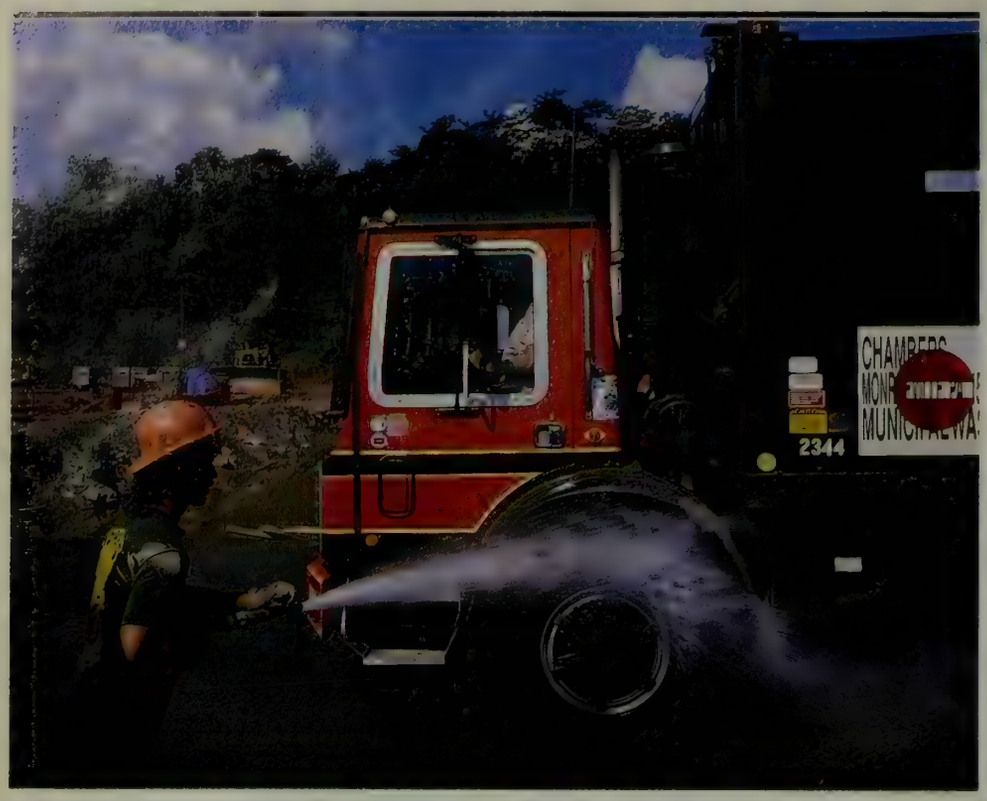
For most communities, a primary concern (aside from esthetics) is whether the sludge and chemicals that leach from mounds of waste into the ground will contaminate the water supply. Rangos moved to dispel these fears by investing in his landfills. He lines them with two layers of high-density polyethylene, creating, in effect, a huge swimming pool into which garbage is dumped. The liners capture the contaminated water from the waste; the water is then channeled to water treatment plants which remove contaminants.

A natural salesman, Rangos loves to dramatize the advantages of his product to politicians and regulators from communities where he hopes to build new landfills. To show off water treatment facilities at his first Pennsylvania landfills, for example, he invited public officials to dine at one site; for entertainment the guests watched divers swim in the treated waste water.

Remember the lesson of the lady and her poodle that Rangos learned while disposing of boiler ash when he was starting out? He continues to curry favor with residents of communities where his landfills are situated. For example, Rangos washes garbage trucks as they exit his sites so the trucks don't track mud on city streets, and sweeps streets of trash that might have fallen off trucks.

Such services are expensive, which is one reason Rangos took Chambers Development public in 1985. But for Rangos, being a good neighbor is the best way to mute the attacks of people determined to locate landfills in someone else's backyard, and so to keep his business growing. "I'd rather put my money in new facilities," he says, "than spend it on $300-an-hour attorneys to keep me out of trouble with the enforcement agencies."

That attitude wins Rangos considerable goodwill with the state and local agencies that permit and monitor landfills. Chambers' new $30 million Charles City County, Va. site, opened in April 1990, "is designed at 50% more than the regulations require," says Barry Wright, technical services director for the Virginia Department of Waste Managment. For example, most landfills have monitor-



Photographs by Alan Darrow

ABOVE: Truck washing at a Chambers landfill
LEFT: Rangos' sons Alex (left) and John Jr.

Political canvassing and no mud on the streets.

ing systems that detect groundwater degradation only after degradation begins. But Chambers Development's double-liner system detects fluid leakage before it contaminates the groundwater. This is why, Wright continues, Chambers got approval for its Charles City County landfill in just six months, while other operators' applications have been tied up for three years.

"Most operators quibble about what the regulations say," says Wright. "Chambers doesn't."

Rangos doesn't let local officials forget that what's good for Chambers Development is also good for local taxpayers. In exchange for approving Chambers' new landfill, Charles City County not only gets to dump its garbage free of charge, it also gets a host fee for taking New York City trash; this fee is running $1 million to $3 million annually for 20 years, enabling the county to improve schools and cut local taxes.

When he attempts to build a new landfill, Rangos treats the process like a political campaign, with door-to-door canvassing to find out how best to address the community's concerns. A good example is Anson County, N.C., where Chambers Development was recently in competition with five other operators to build a landfill.

Rangos found locals wanted to limit the landfill to the smallest size feasible. Armed with this intelligence, Chambers submitted a proposal calling for a 750-tons-per-day site, one-third the size of the next-smallest proposal.

Rangos also discovered that local people wanted their landfill to serve only regional needs. So Chambers proposed serving a 75-mile radius—including bustling Charlotte—while one competing firm wanted to import garbage from New York, upsetting rural folk.

In June Chambers' proposal won.

Since 1981 Chambers Development's sales and earnings have compounded at over 50% a year (to $258 million and $34 million, respectively, last year). Mesmerized by this growth, Wall Street values Chambers Development, currently trading at 28 a share, at $1.7 billion, over 40 times earnings. By contrast, garbage industry leader Waste Management is valued at about half that multiple.

The high multiple poses an obvious question: Can Rangos generate enough future growth to maintain and expand Chambers'—and his—worth? The Environmental Protection Agency last month issued tougher-than-ever landfill rules. Industry watchers say the new rules will make landfills more difficult and expensive to build. That, plus filling up old sites, will probably force closure of half the country's existing landfills in five years. Note, however, that many of those below-code landfills are municipally, not privately, owned. Rangos figures he'll be able to generate a lot of new business helping municipalities bring their landfills into compliance with the new rules.

Now 62, Rangos is slowly turning things over to his two sons—John Jr., 34, and Alex, 31, both of whom worked on landfills as teenagers and are respected by competitors. But he's also looking for Chambers Development's next big opportunity. He thinks he has found it: cleaning up things like contaminated soils and steel plant sludges. Volumes are huge: 7.2 billion tons annually of such contaminated materials, versus 180 million tons a year of municipal waste. Industrial sludge is not very pretty to look at or fun to handle, but then neither were those piles of coke ash that Rangos turned to gold in Pittsburgh in the 1960s.

This year marks the tenth anniversary of The Forbes Four Hundred. There has been tremendous turnover in the list. That's good for the country. But the past few years the rich haven't been getting much richer. That's bad for the country.

The richest people in America

Edited by Harold Seneker with Dolores Lataniotis
Reporters Jody Brennan, Lisa Coleman, Evan McGlinn, Wendy Tanaka and Jason Halperin

SO WHAT HAS The Forbes Four Hundred accomplished in ten years?

If nothing else, it has demolished one of the oldest and most persistent myths about wealth in America, widely accepted as truth for much of this century. That is the myth of the rich as a static class, the idea that there is still a fixed, mostly hereditary class structure in America in which a permanent elite of enormously rich men lord it over all the rest.

The Forbes Four Hundred shatters that myth by showing that staying rich is nearly as difficult as getting rich, that wealth is not something that automatically passes from generation to generation like titles of nobility but must be earned again with each generation. Nor does wealth stay put geographically. Since the first Forbes Four Hundred appeared in 1982, there has been a big shift of the large fortunes, away from the New York area and Texas to California, the South and the Northwest.

This is not to say that great wealth, once accumulated, doesn't linger for a generation or two after the chap who piled it up has gone to his reward. But thanks to inheritance taxes, the decline in raw energy from generation to generation and the inherent dynamics of free-enterprise capitalism, wealth, unless constantly renewed, soon loses its influence, and, eventually, its affluence.

Hold it. Rockefellers? Mellons? Du Ponts? Aren't they vastly rich? Don't they and others like them constitute a class? The answer is: Look carefully at what is happening to such families. With each generation, their wealth spreads ever more thinly among ever more heirs. The impetus to growth gets ever weaker, the impact of the fortune smaller.

The tale is told again and again on these pages: The 6 Rockefeller siblings of David and Laurance's fading generation become 24 fractious cousins in the next, more eager to spend or give away their family's money than to increase it. In the next generation, there are 52 cousins. Some families dissipate great fortunes faster than others: Witness the Kennedys *(see story, p. 34)*. Or the progeny of the late Texas oil tycoon H.L. Hunt.

So instead of a fixed class structure, there is flux, unnerving constant flux. An orderly process? Heavens, no. But a highly creative one. The great economist Joseph Schumpeter called it the process of creative destruction.

History is written, it has been said, to the rhythm of some people descending the stairs in silken slippers while others climb them in hobnailed boots. John Kluge, a self-

Ten years of The Forbes Four Hundred

	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91
Total net worth ($billion)	$92	$118	$125	$134	$156	$220	$220	$269	$273	$288
Average net worth ($million)	230	295	315	335	390	550	551	672	682	721
Median net worth ($million)	150	225	250	250	275	375	375	460	450	450
Number in real estate	48	48	71	83	59	73	87	77	60	50
Number in oil and gas	70	64	74	64	48	29	30	22	26	32
Number of billionaires	13	15	12	13	26	49	51	67	66	71

As the wealth of the country has grown, so has the wealth of its wealthiest.

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Profit Through Leadership

made billionaire, appears to be richer now than all of the Rockefellers put together. The Waltons are nearly four times richer than even Kluge and almost five times richer than the entire Rockefeller clan.

Old money? Sam founded his Wal-Mart in 1969, after such recent historical milestones as the end of the baby boom and the rise of the Beatles.

The Forbes Four Hundred fills what was once an important blank in the portrait of American society—showing what concentrated private wealth in this country is really like, as opposed to what ideologues and political opportunists of every stripe want people to believe it is like.

To say the richest Americans constitute a class is to lump together a founder of a waste disposal company like John Rangos *(see story, p. 142)* and a prominent Philadelphia inheritor like Fitz Dixon and a dedicated second-generation professional executive like Robert Galvin of Motorola and a survivor of Nazi slave labor camps like Laszlo Tauber. Throw in a onetime farm boy and grade school dropout (J.R. Simplot); an opportunistic former usher

from Brooklyn (Hollywood's David Geffen); a former truck driver (Johnnie Bryan Hunt); a onetime Polish housemaid (Basia Piasecka Johnson).

The only thing all these people have in common is that they all have a lot of money.

Even in the founder's lifetime, a large fortune isn't secure. Harold Brown, throughout the 1980s the largest landlord in Boston, filed for Chapter 11 and is restructuring his company. The good-size mob of oil tycoons that heavily speckled our first list, in 1982, is more than cut in half. Only 171 of the people on that 1982 list are among 1991's Four Hundred. It is one thing to make a fortune, and another to keep it—as many a formerly monied Hollywood celebrity can sadly recount *(see story, p. 81)*.

Meanwhile, new fortunes keep shouldering to the fore. New industries rise as others fade. New people arrive on our list riding these waves of change. Fewer this year, perhaps, because there's a recession: 1991's 47 dropoffs (as it happens, a below-average turnover) are replaced by only 27 brand-new faces, each marked in our listings by a star: (the rest are returnees from previous years). But the only real constant is change.

This year the biggest single change is in real estate. Many of our 1991 dropouts are property tycoons demonstrating the hard way that leverage is a two-edged sword. It used to be that bankers wanted 75% financing and 25% equity in solid real estate. But in the wild-eyed mid-1980s that went out the window. Financing 80% was in; then 90%. Finance your property 80% at the bank, see real estate values go down 20%, as they have in many a city across the country, and what do you have left? Not a Forbes Four Hundred fortune anymore. You have zero. Or worse.

Consider one of the most respected real estate moguls in the country, Al Taubman. Last year we figured him at upwards of $2 billion, but this year we drop him right out of the billionaire class. His three new shopping malls had $585 million from Chase Manhattan Bank on them, on top of a lot of debt on his older properties. Factor in his unfortunate venture into owning department stores (fiscal 1991 cash flow: $44.9 million in the red), plus a few places where we simply miscalculated, and you see how painfully leverage operates on the downside.

There have been regional shifts among The Four Hundred as well, suggesting that wealth is becoming geographically decentralized. In 1982, 89 of The Four Hundred called New York City their home; this year only 66 do. Dallas/Fort Worth has fallen from 26 members to just 16. Houston is down from 19 to 5.

Which regions gained wealth? The San Francisco Bay area rose from 8 to 25. San Diego from 2 to 6. Miami from 5 to 8. Los Angeles went from 23 to 29.

As the economy has slowed since 1989, so has the pace of wealth creation—bearing out George Gilder's thesis that what's good for the rich is also good for most everyone else. From 1982 through 1989 were great years for the rich. The combined net worth of The Forbes Four Hundred nearly trebled. And they were good years, too, for investors and pensioners who profited mightily from a tripling of the Dow Jones industrials (pension plans, representing the accumulated savings of tens of millions of people, are today the biggest owners of common stocks). These were good years, too, for the economy. U.S. exports rose by 68%, manufacturing output climbed by more than a third, jobs rose 18%, including a 33% rise in black employment. Between 1982 and 1987 the number of businesses owned by blacks rose by more than one-third, and their receipts more than doubled. *(See story, p. 38.)*

But since 1989 the economy has slowed—for blacks, for whites, for rich, for poor. We've been in a recession. The median net worth of The Forbes Four Hundred has stagnated since 1989, not even keeping pace with inflation.

The rich aren't saints. Not all of them are nice people. But it just isn't true that they get rich at the expense of other people; when they don't prosper, neither do the rest of us.

Is there any certainty at all amidst all this turmoil at the top? Only this certainty: that when the editors prepare the millennium listing of The Four Hundred in 2000, we expect fewer than half of the present names will still be there. And among the hundreds of newcomers will be some people who are just getting started in 1991, some only recently arrived from foreign lands. ■

Illustrations by Lance Goodwin

Billionaires

John Werner Kluge

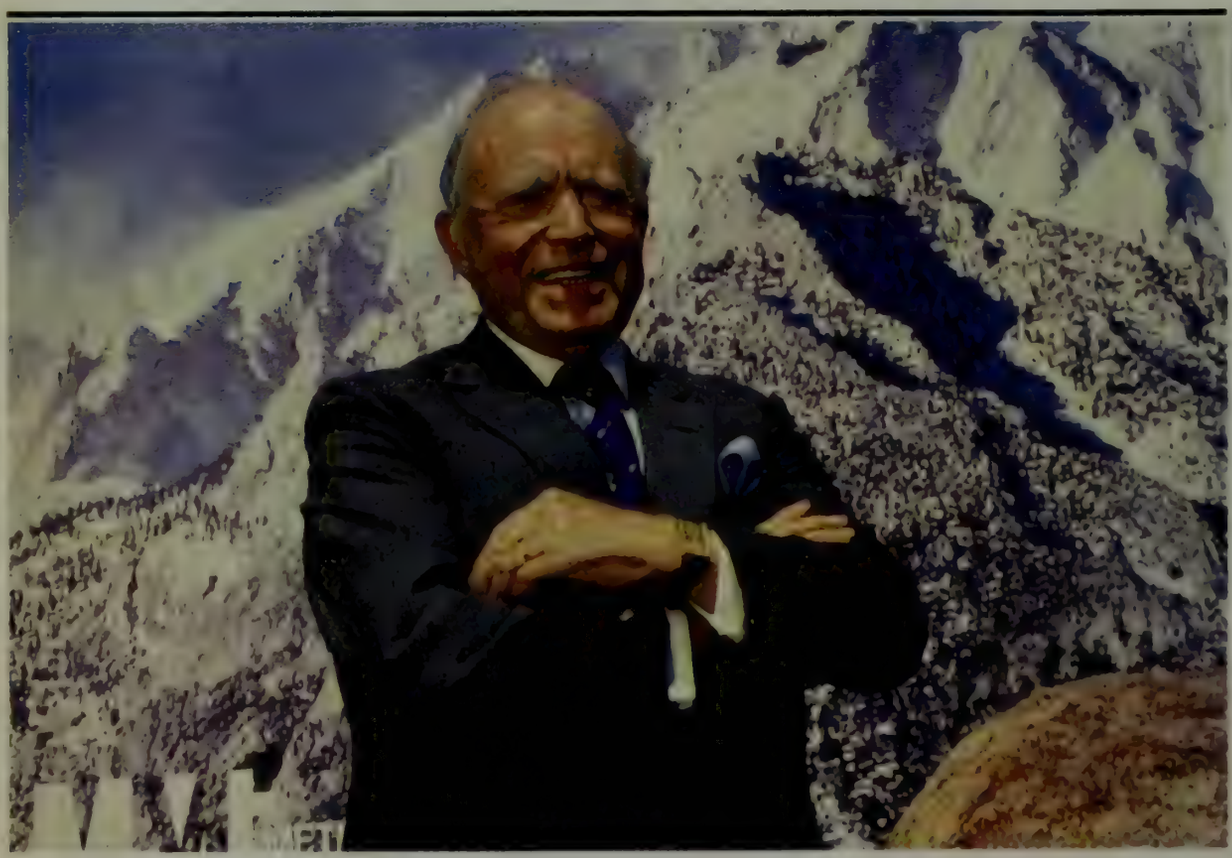
Metromedia. Charlottesville, Va.; NYC. 77. Thrice divorced, 3 children. German-born, poor, family settled in Detroit 1922. Scholarship to Columbia, earned economics degree (1937) and $7,000 gambling. Army intelligence WWII. Bought Maryland radio station, formed Metromedia: built string of radio, TV stations; added billboards, Harlem Globetrotters, Ice Capades. Much later, cellular phones. Realized $4.65 billion before taxes liquidating Metromedia assets 1984 (2.5 times what other shareholders got). With cash started or bought numerous businesses: computerized billboard-painting company; 70% ailing Orion Pictures; Ponderosa Steak chain; also owns Bonanza, Steak & Ale. Metromedia sold NYC cellular business last year for $1.05 billion cash, $850 million stock in LIN Broadcasting; still has half of Philadelphia cellular franchise; Metromedia Communications Corp. fourth-largest long-distance telephone carrier in U.S. Recently gave longtime associate Stuart Subotnick 5% of Metromedia Co. Converted to Catholicism before third marriage, to model-actress Patricia Rose Gay 1981 (divorced 1990). Has 10,000-acre estate Va. (Pat has 9.7 acres); 80,000 acres and castle in Scotland; significant art collection. New yacht, but "I've never liked the weekend in my life. I was enthusiastic about Monday morning from the day I left college." Net worth estimated $5.9 billion.

William Henry Gates III

Microsoft Corp. Seattle. 35. Single. Dropped out of Harvard age 19 to cofound Microsoft with school friend Paul Allen *(which see)* 1975; now world's largest microcomputer software company. In 1980 agreed to develop operating system for IBM's first PC: MS-DOS, OS/2 and Windows now account for lion's share of PC systems' software market. Gates' goal: make personal computers ever more "personal," i.e., user-friendly, thus generating ever more software sales. Says 37,000-square-foot house, still under construction, will be used mostly for business, one way Gates lets employees know he's accessible. Hobbies: investing in biotech companies, but some reading, tennis. Typecast as wonk and self-proclaimed "hard-core technoid," owns a Porsche 959 (not street legal yet) and Ferrari (drives a Lexus to work). "Leery of counting paper assets as wealth," says he doesn't bother to look at stock's price: With an infinite amount of money, would still order the same hamburger. With stock, proceeds from sales, recently worth some $4.8 billion.

Sam Moore Walton
S. Robson Walton
John T. Walton
Jim C. Walton
Alice L. Walton

Father, children. Wal-Mart Stores. Sam: Bentonville, Ark. 73. Married; 4 children. Born Kingfisher, Okla. Served stateside in Army World War II. J.C. Penney trainee after college,



Paul Hatrer/Outline

In first place, John Werner Kluge **With cash alone over $2.5 billion, how much further will the top man climb?**

William Henry Gates III, worth $4.8 billion

His Microsoft stock is up 1,500% in five years, but he doesn't count paper as wealth.

opened Ben Franklin five-and-dime 1945, lost lease; started again Bentonville with brother James *(which see)*. By 1962, 15 stores; took public 1970. Concept: discount stores in small towns, rural areas, each big enough to freeze out competitors. Today 1,800 stores in 37 states, the nation's largest retailer (1990 sales, $32.6 billion). In February acquired Wholesale Club, Inc. for about $163 million. Diagnosed as having bone cancer 1990; undergoing chemotherapy, still doing business as usual. Company long closely tied to Sam's personality; known for getting out to his stores and talking with people. Gives money to free-enterprise causes. Pilots own small plane, hunts quail. Family holding company shared equally among Sam, children. S. Robson: Bentonville. 47. Yale Law. Divorced, remarried; 3 children, 2 stepchildren. Partner Oklahoma law firm, Wal-Mart vice chairman. John T.: San Diego. 46. Married; 1 child. Vietnam veteran. Involved in family holding company Walton Enterprises. Owns boat-building company. Jim C.: Bentonville. 43. Married; 4 children. President, Walton Enterprises. Oversees family banking business (interest in five banks), real estate. Alice: Rogers, Ark. 42. Divorced twice. Started Llama Co. (investment firm named after a pet) 1989 with $19.5 million from Walton Enterprises. Says famous surname merely opened the door. The family stock, over 440 million shares, or 38%, of Wal-Mart Stores, other assets estimated over $22 billion.

Warren Edward Buffett

Stock market. Omaha. 61. Married; 3 children. M.S. Columbia. Son of stockbroker who later became congressman. Purchased first stock age 11. Value investor, uses old-fashioned analysis to find undervalued securities. Started investment partnership 1956, dissolved 1969 after thirtyfold growth. Says over half personal net worth attributable to fewer than a dozen investment decisions. Acquired interest Berkshire Hathaway 1962, by 1965 had 70% control; total cost, $14 million. Company today worth over $9 billion; large equity investments American Express, Coca-Cola, Capital Cities/ABC, etc. No dividends (avoids double taxation), except once—1967, about 10 cents per share: "I must have been in the bathroom at the time." Channels investments through property/casualty insurance companies—a source of cheap finance. Super Mr. Clean image: Designated interim chairman Salomon Brothers after recent debacle; pay under $1, but protecting sizable investment. Has corporate jet called the *Indefensible*. Fundamental Sage of Omaha advice: "Investment must be rational; if you can't understand it, don't do it." His Berkshire Hathaway shares recently worth over $4.2 billion.

Henry Lea Hillman

Industrialist; venture capital, real estate. Pittsburgh. 72. Married, 4 children. Quiet son of fierce coal-steel-gas tycoon John Hartwell Hillman Jr., who followed lead of Mellon and Carnegie, took over Pittsburgh Coke & Chemical and built Texas Gas Transmission. After Princeton, Henry joined business 1946, took over after father's death 1959, bought out 5 siblings (now deceased). Sold off smokestack assets to diversify into real estate, light industry: "In smaller companies, you can come in and talk to people, get to know and understand them, and generate the kind of spirit that can get them moving." Science buff, sank large sums into Silicon Valley mid-1970s; now investing in biotech. Backed LBO shops, including Kohlberg Kravis Roberts; later his own Copeland Corp. Real estate holdings span nation. Wife Elsie zealous Republican, Pennsylvania campaign manager for Bush 1988. Henry owns 80% of business empire; stepbrothers Howard and Tatnall 20%; his share estimated $3.3 billion.

Richard Marvin DeVos
Jay Van Andel

Partners. Amway Corp. Ada, Mich. 65, 67. Each married, 4 children; all but 1 work for company. Next-door neighbors, high school buddies. After WWII tried flying service, then hamburger stand; then bought schooner, set sail for Haiti; sank in Cuba. Willing to raise a buck anywhere, started Amway 1959 in basement. Began with soap, added over 400 products sold door-to-door; preached American dream, free enterprise to recruit salespeople. Company pleaded guilty to Canadian customs fraud scheme 1983; fined C$25 million, largest ever. Sales declined, then rebounded as marketing pacts with big names (MCI, Firestone, Coca-Cola) put professional gloss on Bible-thumping

Eli Reichman

Sam Moore Walton, worth $4.4 billion

An energetic 73, he continues to drive Wal-Mart's employees to new heights.

image. Over 20 subsidiaries: real estate, jewelry, hotels, etc., though most money made from salespeople's purchase of tapes, books, rally tickets. With Irwin Jacobs, knocked on Avon's door 1989 pitching a surprise $2 billion bid for the company; no sale. Spring 1991 enormously profitable Amway Japan went public; Amway's 92% of stock then worth $8.2 billion. Stock now down over 40%, but Van Andel and DeVos share company still worth upwards of $6 billion. The 1991 Amway convention theme: "We Touch the World."

Samuel I. Newhouse Jr.
Donald Edward Newhouse

Brothers. Publishing, cable TV. Father Samuel born to Eastern European immigrants. Ran Bayonne (N.J.) Times age 16, took over ailing Staten Island Advance 1922. Fanatic cost-cutter, worked out of briefcase; built nation's largest private newspaper chain: "The only thing to do with money in the newspaper business is leave it in the newspaper business." His two sons tagged along on rounds. Purchased magazine publisher Condé Nast 1959 (then motto: "Class, not mass") for $5 million as anniversary present to wife: "She asked for a fashion magazine, and I went out and got her Vogue." Attracted legend-making talent: Vogue editor Diana Vreeland, Condé Nast editorial director Alexander Liberman. Samuel's death 1979 brought estate tax cases (2 settled favorably, 1 to go). Sons expanding empire: 29 newpapers (total circ. over 3 million), 17 magazines, books, cable TV (1.2 million subscribers), etc. Si: NYC. 63. Divorced, remarried; 3 children. Supervises magazines (New Yorker, Vogue, Gourmet, Vanity Fair, Parade, etc.), Random House. Introverted, dedicated art collector; workday starts 4:45 a.m. Son Samuel III, Jersey Journal publisher. Donald: 62. Married, 3 children. Advance Publications president; runs newspapers, cable TV. Son Steven, Jersey Journal editor. Si, Donald share empire worth over $5.6 billion.

Sumner Murray Redstone

Movie theaters, Viacom. Newton Centre, Mass. 68. Married, 2 children. Son of drive-in-theater owner. Boston Latin School, broke Japanese codes WWII. Graduated Harvard Law in top 12 of class 1947. Brief stint with Justice Department, then entered father's business 1954. Took over, built National Amusements Inc. to 650-plus screens U.S., U.K. Reaped big gains in 1980s as investor in Twentieth Century Fox, Columbia Pictures takeover, MGM/UA home video buyback. Survived 1979 Boston hotel fire by clinging to ledge. Bought entertainment giant Viacom (Showtime, The Movie Channel, MTV, cable, radio, TV stations) in $3.2 billion hostile takeover 1987: "What did I know about MTV? I only knew I couldn't stand looking at it." Took public next day; his shares then valued $2.8 billion: Net worth nearly tripled with one stroke. Battled John Kluge *(which see)* for Orion Pictures; lost—but $18 million profit. His National Amusements plus Viacom shares still worth $2.8 billion: another $3-billion-plus to go to top Kluge. "Great successes are built on failures and calamities and frustrations, not on small successes."

Leslie Herbert Wexner

The Limited, Inc. Columbus, Ohio. 54. Single. Son of Bella Wexner *(which see)*, who married a Russian immigrant; their apparel store called Leslie's after their son. Leslie quit law school 1961, joined parents; frustrated, left to do it his own way in 1963 with $5,000 loan from aunt. Named venture the Limited—limited to women's sportswear. First year's sales: $160,000. Began to build national chain after first 5 stores went public 1969. Later borrowed to begin acquisitions: Lerner Stores, Henri Bendel, Abercrombie & Fitch, Lane Bryant, Victoria's Secret. Eventually moved into men's, children's apparel after women's slumped late 1980s. Today among largest specialty and mail-order retailers (1990 revenues, $5.3 billion), nearly 4,000 stores nationwide. "The future is in the hands of the new businesses," says Wexner of company. "Each has enormous growth potential." Has getaway in Aspen, jogs regularly. His Limited, Sotheby's stock, other assets worth some $2.5 billion.

Paul Gardner Allen

Microsoft. Mercer Island, Wash. 38. Single. Left college to start Microsoft Corp. in 1975 with school friend William H. Gates III *(which see)*. Diagnosed with Hodgkin's disease in 1983, left Microsoft. Disease in re-

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mission. Founded own company, Asymetrix Corp. (situated a few miles from Microsoft) 1985, independently pursues original software technologies. First product ToolBook, 1990, already revised; mixed reviews. Says "great wealth gives you more flexibility." Passion for basketball, so bought Portland Trail Blazers in 1988: "a dream come true." Recently bought private jet to attend meetings and games. Useful last year: team made it to playoffs. Has own court in backyard. Pursuing new arena for team, building new house for himself. Hobbies: sailing, guitar, chess, when not counting his stock, other assets, recently worth over $2.4 billion.

Eighth-ranked Warren Edward Buffett, Salomon Brothers' new chairman
Cleaning Salomon's image is an unexpected drain on Buffett's time.

Edgar Miles Bronfman Sr.

The Seagram Co., Ltd. NYC. 62. Married 4 times (twice to same woman), now divorced; 7 children. Moved to NYC 1955, became U.S. citizen 1959. Son of Samuel Bronfman of Canada, who in 1928 bought out distillery rival Joseph E. Seagram & Sons, Inc. Waxed fat on U.S. Prohibition. Seagram, based in Montreal, since built into one of world's leading liquor and wine producers (1990 revenues, $6.1 billion); owns 24.5% Du Pont, largest North American chemical company. Acquired Tropicana Products, Inc. for $1.2 billion 1988. Edgar chairman, CEO since 1971. Son Edgar Bronfman Jr. corporate heir apparent. Sr. also president World Jewish Congress, recently met with Polish President Lech Walesa, praising him for role in overthrow of communism. "For that," Edgar said, "the whole world admires and thanks you." Edgar's stock, other assets, estimated over $2.3 billion.

Ted Arison

Carnival Cruise Lines. Tel Aviv. 67. Divorced, remarried; 2 children by first marriage, 1 adopted in second. Born in Israel to shipping family. Joined British army WWII; fought in Israel's War of Independence 1948. To U.S. 1952, began marketing cruises of Norwegian Caribbean Lines mid-1960s. After bitter split with partner, launched Carnival Cruise Lines 1972. Two years later went bust, bought out partner Meshulam Riklis for $1. Bet on gambling, discos to boost revenues. Hit jackpot: Carnival now world's largest cruise line, nearly 1 million passengers last year. New *Ecstasy* and *Fantasy* ships added, over 2,000 berths. Other ventures (share of Miami Heat basketball squad, real estate, new Bahamas casino, Ensign Bank) less successful. Huge donor to group he founded 1982: National Foundation for Advancement in the Arts. Retired November to birthplace Tel Aviv; left son Micky at Carnival's helm. Persian Gulf war, higher oil prices, led to short-term cost hikes. Micky: "We are recession-resistant—not recession-proof." But with cruises at full capacity, Arison still worth at least $2.3 billion.

Jay Arthur Pritzker
Robert Alan Pritzker

Brothers. Finance, manufacturing. Grandfather Nicholas Pritzker came to Chicago from Kiev 1881; started law firm 1902; joined by his 3 sons, still Pritzker & Pritzker today. One son, Abram (A.N.), got out of law into real estate, light manufacturing late 1930s; d. 1986. A.N.'s sons multiplied holdings. Financial wizard Jay: 69. Married, 4 children. Studied law, used father's credit to finance own deals. Started Hyatt hotels 1957; long run by brother Donald (d. 1972); known for extravagant architecture; expanding under Jay's son Thomas; new division Classic Residence offers luxury retirement centers, run by Donald's daughter Penny. Robert: 65. Twice divorced; 5 children. Considered family engineer. Runs over 60 low-tech manufacturing, service firms through Marmon Group (1990 sales, $3.8 billion). Family also owns TicketMaster, smokeless tobacco company Conwood, about one-third of Royal Caribbean Cruise Lines, etc.; real estate. Total fortune estimated $4.5 billion.

Henry Ross Perot

Electronic Data Systems. Dallas. 61. Married; 4 daughters, 1 son. Son of Texas cotton broker. Described "business school" as watching father deal with poor East Texas cotton farmers. Eagle scout. Annapolis. Dissatisfied with slow promotions, left Navy after 4 years for IBM sales job. Pioneered brokering of computer time to increase sales; accepted commission cut to get sales quota increased. Advancement again too slow. Formed EDS 1962 with $1,000 of wife's savings when IBM declined to sell data processing services. Paper

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*"Gulfstream IV Operators Survey," *Business & Commercial Aviation*, August 1989.

billionaire 1969. Crashed. Recovered. Sold 80% to GM for $1.4 billion 1984 and remaining 20% in 1986. Set up Perot Systems 1988 to compete with EDS. Also some 22,000 acres surrounding Dallas; includes Alliance Airport where Ross Jr. plans world manufacturing center. Eyeing Continental Airlines, et al. Patriotic, tough. Solved own Iranian hostage crisis 1979: Perot, team of EDS employees flew successful rescue mission, jailbreak, 540-mile smuggle to Turkish border for 2 captured EDS employees. Offered to transport families to visit Panama wounded. "You can put me on your list as worth a dollar." Plus estimated $2.2 billion.

Forrest Edward Mars Sr.
Forrest Edward Mars Jr.
John Franklyn Mars
Jacqueline Mars Vogel

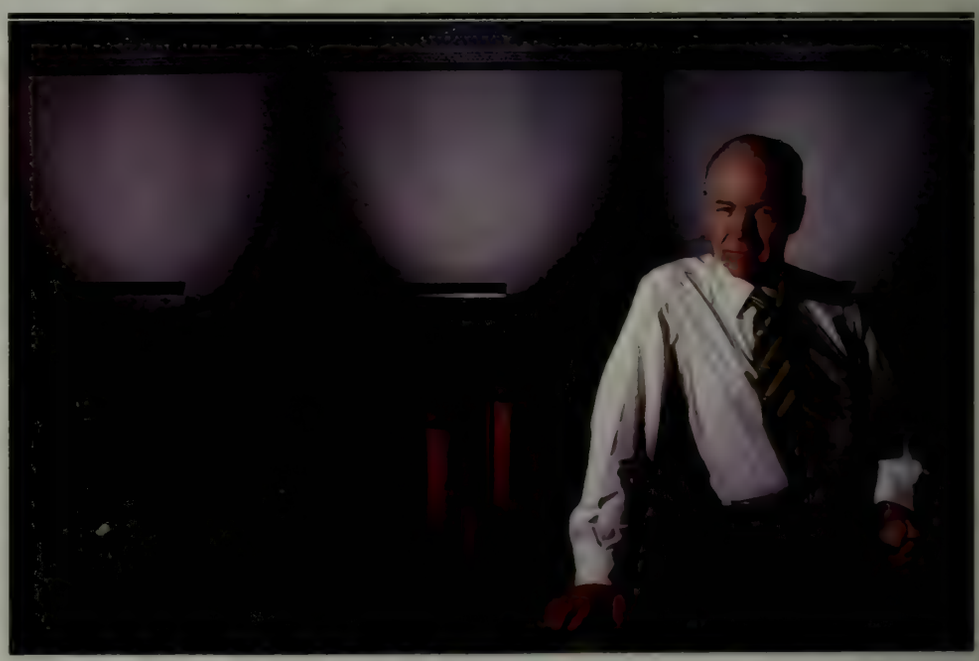
Candy, pet food. Son, 2 grandsons and granddaughter of Frank and Ethel Mars, Seattle candymakers. After two failures, 1914 bankruptcy, moved to Minnesota 1920; struck it rich with Milky Way recipe 1923. Frank (d. 1934) financed son Forrest's British candy business to keep him out of U.S. business. Forrest Sr.: Las Vegas. 80s. Widowed; 2 sons, 1 daughter. Built empire in Europe, returned 1940 one-third owner Mars, Inc.; added M&Ms, Uncle Ben's rice. Bought out half-sister, won control from rest of family 1964. Built into one of world's largest candy companies; also Kal Kan pet foods, etc. Estimated 1990 sales over $9 billion. Tenets: quality ("the consumer is our boss"), cheap packaging ("they don't eat the paper"), fanatic cost control, cleanliness at plant. Retired 1973, Forrest now runs fine chocolate boutique Las Vegas. Religious: "I pray for Milky Way, I pray for Snickers." Forrest Jr: McLean, Va. 60. Married, 4 daughters. Secretive like father. Trained in company's Dutch unit. Now copresident, considered CEO. Pushed new candy image as energy food; added granola bars, noncandy snacks. John: Arlington, Va. 56. Married; 1 son, 1 daughter. Said to have inherited father's brusque, autocratic manner; began in Australia operation, now copresident. Jacqueline: Bedminster, N.J. 51. Divorced, remarried; 3 children. Director. Siblings said to own Mars, yet final word still father's. With over 50 autonomous units worldwide, sun never sets on Mars empire; four share company worth estimated $8 billion.

Barbara Cox Anthony
Anne Cox Chambers

Sisters. Inheritance. Father James M. Cox, a country schoolteacher who bought Dayton (Ohio) Daily News 1898 for $26,000. Three-time Ohio governor; lost to Warren G. Harding 1920 as Democratic presidential nominee. Left politics, returned to press. Bought Atlanta Journal 1939, Atlanta Constitution 1950. Merged, now flagship of newspaper empire. Son James Jr. took over after father's death 1957, moved into cable TV, d. 1974; sisters have 98% ownership. Gave control first to Barbara's husband, Garner Anthony, then to Barbara's son, James C. Kennedy, 43, 1988. Cox Enterprises now 17 dailies, 7 weeklies, 7 major TV stations, 14 radio, enormous cable empire (over 1.6 million subscribers). Also Manheim Auctions, nation's largest car auction. Barbara: Honolulu. 68. Divorced, widowed, remarried; 2 children. More reclusive sister, owns ranch in Australia; chairwoman Dayton papers. Anne: Atlanta. 71. Twice divorced, 3 children. Atlanta socialite. Served as old friend Jimmy Carter's ambassador to Belgium but asserts she is "basically a peasant." Chairwoman Atlanta papers. Two sisters share estimated $4 billion fortune.

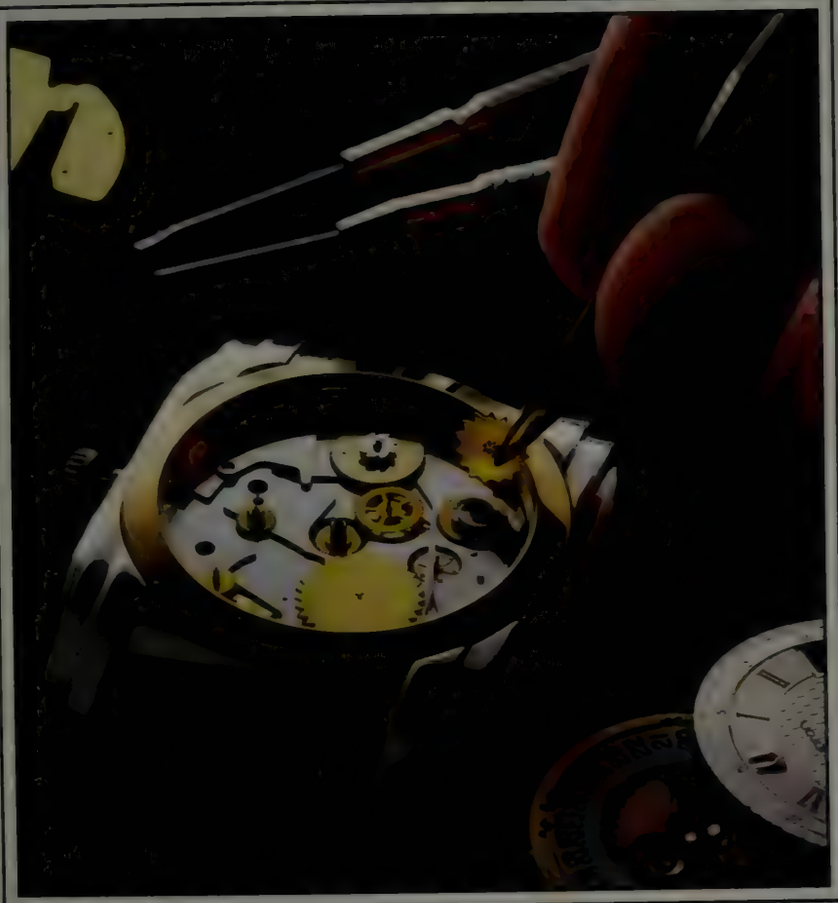
Charles de Ganahl Koch
David Hamilton Koch

Brothers. Oil. Sons of Fred (d. 1967), cofounder Winkler-Koch Engineering Co. 1925. Developed thermal cracking refining process used to extract gasoline from crude 1928; U.S.S.R. was a customer. Early (1958) member John Birch Society. Sons inherited $250 million (sales) oil marketer; renamed Koch Industries. Charles (3 MIT degrees) became workaholic chairman; bought refinery, then chemicals, pipelines, ranching. Koch Industries now second-largest (in revenues) family-owned business in U.S., after Cargill: sales over $17 billion. Charles: Wichita, Kan. 55. Married, 2 children. David: NYC. 51. Single. Joined Koch 1970, now executive VP; 1980 Libertarian VP candidate. Survived Los Angeles USAir crash 1991; 22 passengers died, including "the beautiful stewardess who served me." Family fight 1981-83 over control with brothers Fred and William *(which see)*: Bill (David's twin) claimed Charles hoarded power, withheld informa-



Ninth-ranked and publicity-shy Henry Lea Hillman
"The whale only gets harpooned when he spouts."

THE SLOWER THE HANDS, THE BETTER THE WATCH.



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tion; sued for mismanagement. Charles: Bill had "various psychiatric ailments." Settled. Fred and William bought out for close to $1 billion. David: "They wanted the cash and they got it. But we got the company." Company subject of 1989 Senate investigation on stealing oil from Indians in Southwest: David and Charles charge plot by William to discredit business. Brothers share company worth estimated $3.6 billion.

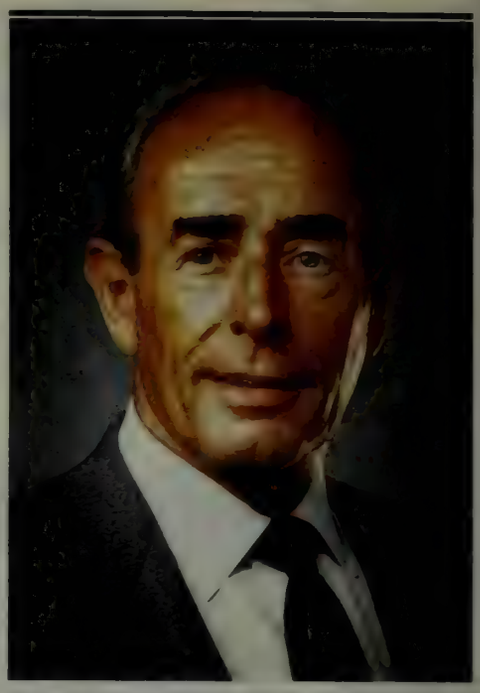
Ronald Owen Perelman

LBOs. NYC. 48. Divorced, remarried; 5 children. Exposed to business at father's metal-fabricating outfit in Philadelphia; Wharton business school. In 1978 borrowed $1.9 million to buy minority interest in jewelry distributor; proceeded to build into MacAndrews & Forbes conglomerate, using debt from Drexel. Constructed money machine: buy undervalued assets, divest all but cash cows, bag bigger game. Nailed Revlon for $3 billion 1985, failed in $4.1 billion bid for Gillette. This year addressed paydown of debt now known to be $4 billion at peak: cut National Health Laboratories (medical testing) stake to 42% from 82%; sold Max Factor, Beatrix cosmetics to Procter & Gamble for $1.14 billion; IPO of comics publisher Marvel Entertainment. Still has First Gibraltar S&Ls, camping and outdoor-equipment maker Coleman Cos. Total net worth now estimated $1.8 billion.

David Packard

Hewlett-Packard. Los Altos Hills, Calif. 79. Widowed, 4 children. At Stanford, Phi Beta Kappa, football end, hurdler. Founded Silicon Valley giant with college buddy William Hewlett *(which see)* 1939. Dave handled business side; Bill, engineering. After unsuccessful stab at marketing things like bowling foul-line indicators, hit big time with audio oscillators. Later innovations: hand-held calculators, LaserJet printer. With 91,500 employees, HP's 1990 sales $13.2 billion. Nixon's Secretary of Defense 1969-71; chairman, Reagan's Blue Ribbon Commission on Defense Management 1985-86. Like buddy Hewlett, huge philanthropist: $70 million to Stanford for children's hospital, many HP shares to his foundation. Has played small daily role in recent years, but returned to more active management to pull company out of slow times. Now heading succession committee in charge of organizational realignment, which means "We are probably going to have to make painful reductions in some places." His 13.7% of Hewlett-Packard worth $1.7 billion.

Jay Van Andel, $2.9 billion
Big dollars in America . . .



Richard Marvin DeVos. $2.9 billion
. . . billions more in Japan.

Walter Hubert Annenberg

Publishing. Wynnewood, Pa.; Rancho Mirage, Calif. 83. Divorced, remarried; 1 daughter (1 son deceased). Son of Moses Annenberg (d. 1942), founder of precursor to Triangle Publications (Philadelphia Inquirer, Daily Racing Form). At 32, Walter inherited debt-ridden company, expanded. Started TV Guide 1953, with 15 million subscribers the nation's second-largest-circulation magazine. Also began Seventeen, Good Food; sold Inquirer 1970. Scored eyebrow-raising $3.2 billion sale of Triangle to Rupert Murdoch *(which see)* 1988. Art collector; paid $41 million for 1905 Picasso in 1989. Long-awaited word on collection: over 50 paintings to NYC Metropolitan Museum of Art despite reported $1 billion offer. "Much as I respect the other institutions that have lately shown our collection . . . I happen to believe in strength going to strength." Extraordinary philanthropist: gift plans over $1 billion, including $21 million to U. of Pa. 1989, $50 million to United Negro College Fund 1990. His cut Triangle sale, art, GM stock estimated $1.6 billion net. His 5 sisters and families of 2 deceased sisters also have share sale proceeds, GM stock, estimated $860 million.

Robert Muse Bass

Oil, investments. Fort Worth. 43. Married, 2 children. Third son of oilman Perry Richardson Bass, who expanded oil holdings inherited from tycoon uncle Sid Richardson (d. 1951). Perry retired 1968, left family empire to sons. Eldest, Sid *(which see; also Lee, Edward)*, diversified into stock (Disney, Texaco, etc.), real estate. Robert (Andover, Yale, Stanford business school) felt overshadowed, split off 1983, moved one floor down in Bass-built Fort Worth office tower. Sold most of Disney stake, went on dealmaking frenzy: media (Taft Broadcasting, cable TV, Times Publishing), real estate (sold Plaza to Trump for profit), information (bought Bell & Howell, bid for Macmillan). Now, with Equitable Life, in Acadia Partners: Butler Aviation, Na-

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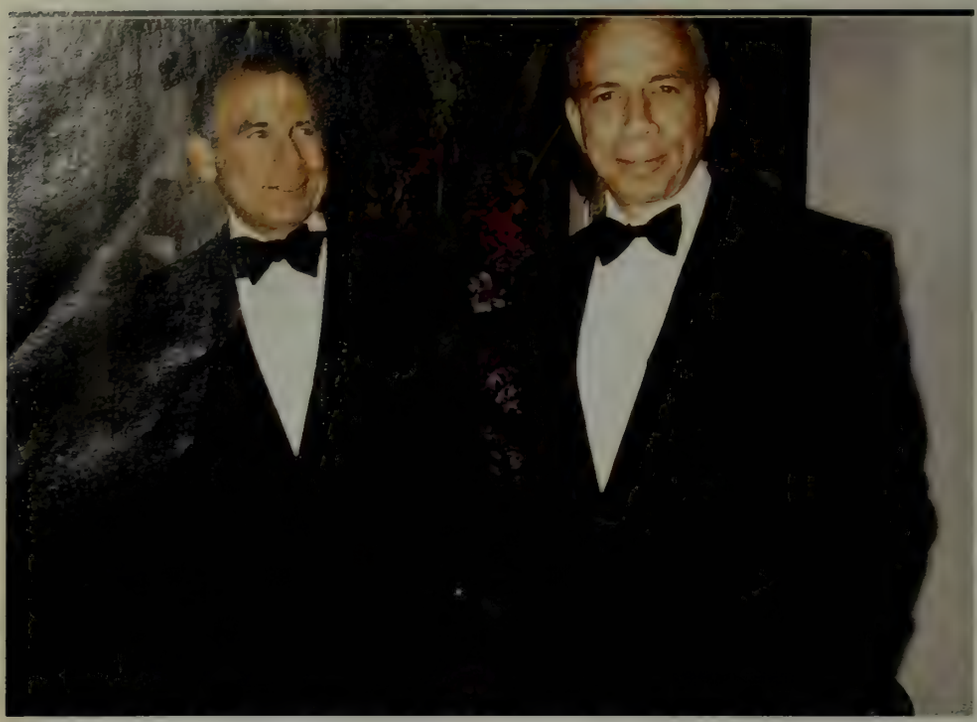

Gerardo Somoza/Outline

Donald Edward Newhouse and Samuel Irving Newhouse Jr., worth $2.8 billion each
Damn the media recession. Expand ahead.

tional Reinsurance Corp., Easco Corp. Obsessively private, imposes strict code of secrecy on employees. Net worth believed to be at least $1.6 billion.

Lester Crown and family

Inheritance, industrialist. Wilmette, Ill. 66. Married, 7 children (3 in business). Son of renowned Chicago financier Henry Crown né Krinsky (d. 1990), who with 2 brothers created building supply Material Service Co. 1919. Cost advantages helped outlast fierce Depression competition, gain dominant market share after. Research, bold negotiations emblems of career. Colonel during WWII: "When the Colonel gets into a deal, he knows the size of your underwear." Postwar, took advantage of leverage, tax loopholes; purchased large stakes in stocks, real estate. Merged with General Dynamics 1959; sold preferred stock he got, later bought common on open market, ousted management, effected turnaround. Son Lester, conservative chemical engineer, Harvard M.B.A., devout family man, currently controls fortune, much in family trusts. On rumors may buy back GD stock after stellar Mideast performance of weapons: "There's no basis . . . it's a non-event." Amid family infighting, bought out cousins who opposed Lester's management 1990. Separately, in-law Schine family suing over Lester's 30-year administration of trusts: "This just proves that no good deed goes unpunished." Amid legal knots, Crown fortune estimated to be $1.6 billion.

Edward John DeBartolo

Shopping centers. Boardman, Ohio. 82. Widowed; 1 son, 1 daughter. Father, Anthony Paonessa, died months before birth of Mr. D, who took stepfather's name. At 13, wrote contracting bids for non-English-speaking stepfather. Mother scuttled his plans to be truck driver, pushed him to Notre Dame. Studied civil engineering; Army engineer WWII. Took over stepfather's firm 1944. Built first strip shopping center 1948: "I would like to know that what I am doing could go on endlessly." Giant gamble for him at time. Gambled again 1960s: huge regional malls, large Florida land holdings. Now "King of Plazas," over 75 million square feet owned. Also sports (son's San Francisco [football] 49ers, Pittsburgh [hockey] Penguins, 3 racetracks), hotels, office space: "I stick my nose in everything." Still maintains discipline of daily 5 a.m. rise: "I get here at 5:30 every morning and stay until 6:30 or 7:00." He means p.m. Net worth estimated some $1.4 billion.

Samuel Jayson LeFrak

Lefrak Organization. Real estate. NYC. 73. Married, 4 children. Sam joined French immigrant father's construction firm after U. of Maryland, took over 1948. Became nation's largest private landlord: developed over 200,000 apartments (currently owns 94,000), for "the mass, not the class." Continuing 600-acre, $10 billion, mixed-use waterfront site, Newport, N.J., including 1.2-million-square-foot Newport Centre Mall with Mel Simon *(which see)*. "Eighth wonder of the world," reported to be experiencing "financial difficulties" with some rental units, now under watchful eye of FHA, which insured mortgage. Son Richard, 46, president. Also smaller interests: entertainment, music publishing, copyrights, oil and gas. "The music business is like real estate, except you don't have to paint it every two years." Knighted by kings of Norway, Sweden. Collects art. Net worth estimated about $1.4 billion.

Robert Edward (Ted) Turner III

Turner Broadcasting System. Roswell, Ga. 53. Twice divorced, 5 children. Engaged to Jane Fonda. Kicked out of Brown U. Took over late father's billboard company at 24, parlayed into TV stations. Acquired Atlanta's independent Channel 17 1970, built TBS, first "superstation" exploiting satellite transmission 1976; pioneered satellite cable TV news network 1980. Built company: today, entertainment (46%, 1990 operating profits) includes TBS SuperStation, TNT cable network; news (28%) includes CNN, Headline News; syndication/licensing (19%) includes MGM film library, etc.; sports (2%) includes Atlanta (baseball) Braves, 96% Atlanta (basketball) Hawks. Cable revolution he foresaw, pioneered, getting closer: "At the current rate, we should catch the big three networks." Failed bid for CBS 1986.

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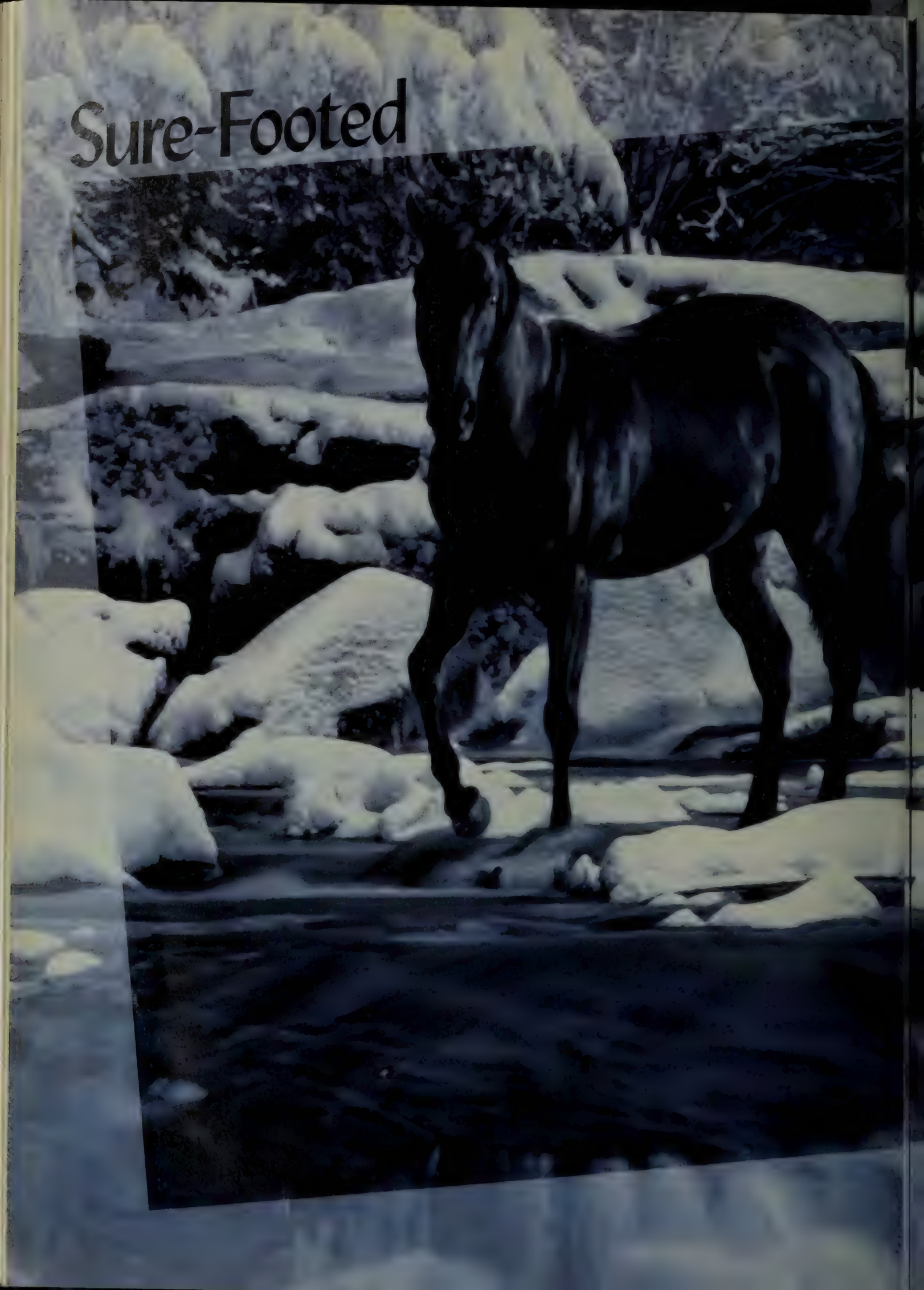

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For a step-by-step account, please write the address below for a copy of the 1990 Norfolk Southern Annual Report.

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The Thoroughbred of Transportation.

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Once dubbed the "Mouth of the South," sounds more like Mr. Jane Fonda on politics: "The white European-descent people . . . we're the ones that have destroyed the world." Avocations: racing sailboats, fishing, Political Correctness. Stock, other assets estimated $1.4 billion.

Sid Richardson Bass
Lee Marshall Bass

Brothers. Oil, investments. Fort Worth. Two of 4 sons of Perry Richardson Bass, whose uncle, oil legend Sid Richardson, started with $40 from Perry's mother. Left bulk of reported $100 million estate to charity 1959, some to Perry, who built new $50 million oil empire by 1968. Retired, gave reins to newly minted Stanford M.B.A. son Sid: 48. Divorced, remarried; 2 children. With Stanford classmate Richard Rainwater *(which see)*, started doing deals 1970. Marathon Oil ($160 million estimated profit), Texaco ($450 million); Disney shares worth well over $2 billion. Brothers Robert and Edward *(which see)* split off 1980s. Ex-wife Anne increasingly prominent NYC society. Known for elaborate gowns. Sid dumped Anne for other socialite, Mercedes Kellogg, 1986. Sid's alleged honeymoon spot: Disney World; swears will never sell Disney shares. Lee: 35. Married, no children. Yale grad (like other brothers), Wharton M.B.A. Invests with partner Sid; lives quietly. Brothers share estimated $2.7 billion.

Philip Hampson Knight

Nike, Inc. Hillsboro, Ore. 53. Married, 2 sons. Track star at U. of Ore., M.B.A. Stanford 1962. As Price Waterhouse CPA, moonlighted importing Japanese track shoes with former track coach. His Blue Ribbon Sports Co. began making own shoes 1971; new name, Nike—for Greek goddess of victory—came to an employee in a dream. Played heavily on endorsements by athletes, clever advertising. Led to sales boom 1970s, first half of 1980s, until Reebok bounced Nike from top spot in market 1986 *(see Fireman)*. But since 1988, led by Air Jordan, the company has been No. 1. Current U.S. market share: Nike, 27%; Reebok, 23%. Knight on Reebok's Pump: "It's not an innovation, or even a gimmick. We see it as a toy." Two target areas for growth. International: "Biggest trend that's going on in the sneaker industry is how much the business is growing outside the United States." Women: "When we mention the name Nike, everybody thinks men's." Still tries to run 20 miles a week. Stock, etc. worth $1.35 billion. "Basically, I wouldn't trade places with anybody."

Joyce Ravid

Ranked 14th, Sumner Murray Redstone
Moving movies to Europe.

David Howard Murdock

Real estate, takeovers. Bel Air, Calif. 68. Divorced, widowed; 2 sons. Traveling salesman's son, high school dropout. After WWII to Detroit, borrowed $1,800 to buy diner, sold for profit. Then Phoenix: built homes, founded bank, accumulated over $100 million fortune; Phoenix market collapsed 1964; with remaining $1 million moved to LA 1966. Invested real estate, small companies; large private holdings. Helped merge Iowa Beef Processors into Occidental Petroleum, quarreled with Armand Hammer but kept $100 million profit. Helped save Continental Group from raider Sir James Goldsmith 1984; year later Murdock's stake bought for about $150 million. "Murdock manages to get bought out, and he manages to get bought out pleasantly. That's part of his genius." Merged Flexi-Van into Dole Food Co. (formerly Castle & Cooke), now has 23%; is chairman, CEO. Bought Cannon Mills 1982, sold to Fieldcrest Mills 1985; Cannon workers' pension fund hit 1990-91 by junk bond debacle. Murdock paid $800,000 out of own pocket to over 9,000 workers to cover part of loss. Owns interest Hay Adams Hotel in Washington, D.C. Large stable Arabian horses, etc. Prominent GOP fundraiser. Estimated worth at least $1.35 billion.

Stephen Davison Bechtel Jr. and family

Engineering, construction. San Francisco. 66. Married, 5 children. Grandson of Warren Bechtel, railroad builder, founder Bechtel Group. Took over gigantic, global construction company (Hoover Dam, Alaska pipeline) 1960 from father Stephen Sr. (d. 1989). Added nuclear facilities—has built or helped build 40% of U.S. plants. Inherited father's love for enormous projects—e.g., Jubail, $40 billion Saudi industrial city, 1970s. Should have good solid years ahead: contracted to help rebuild battle-scarred Kuwait in aftermath of Desert Storm. Someday, Iraq? Many execs from 1970s in Reagan's cabinet: George Shultz, Caspar Weinberger (Shultz back on Bechtel board). Company diversified into real estate, coal early 1980s; also operates small power plants. Son Riley, 39, now president, someday chairman. Stephen's sister Barbara Davies may have silent interest. Bechtel Group, Bechtel Investments, family's Lakeside Corp. Sequoia Ventures, etc., estimated at least $1.3 billion.

Gordon Peter Getty

Inheritance. SF. 57. Married, 4 sons. Son of legendary oilman Jean Paul Getty. "Gordo" more interested in music than oil. To San Francisco's Conservatoire of Music 1960s; composes and conducts. Sued father for dividend income 1966; pilloried by father's lawyers, but only relative at father's deathbed 1976 *(see also J. Paul Jr.)*. Was cotrustee Sarah C. Getty trust (named after his late grandmother), which held 40% Getty Oil; later sole trustee. Niece Anne Earhart *(which see)* filed first family lawsuit to oust him 1976. Touched off Texaco-Pennzoil catastrophe by sale of Getty Oil to Texaco 1984.

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The legendary marque of high performance.

Looked down upon at time as businessman—but sold at height of oil prices, doubled family fortune to $3 billion, tripled income. Family suit settled December 1988 with dissolution of fortune into separate trusts run for and by family members *(see Caroline Getty, et al.)*. Gordo's quarter-plus, other wealth estimated at least $1.3 billion.

Harry Brakmann Helmsley

Real estate. NYC and Greenwich, Conn. 82. Divorced, remarried; childless. Started in mailroom; collected rents for real estate firm; partner 1938. Began buying ordinary, unpretentious buildings matching his means and unassuming manner, 1930s; brokered buildings, reinvested commissions for down payment. First wife Quaker, he converted 1940. Pioneered real estate syndication with late Lawrence Wien. By 1950s in prime Manhattan buildings; Empire State Building 1961; Helmsley took operating lease. "Money's the great motivator." Today Helmsley partnerships control 50 million square feet commercial; 50,000 apartments; 13,000 hotel rooms nationwide. Shocked associates with divorce 1972, remarriage to star broker Leona Roberts. Leona still appealing 4-year sentence for tax evasion; Harry declared mentally unfit to stand trial. Helmsley-Spear, no successor in sight, losing leadership position in NYC brokerage. Harry, still collecting receipts from once-grand empire, worth at least $1.3 billion, but nobody's dancing now.

Marvin Harold Davis

Oil, real estate. Beverly Hills. 66. Married, 5 children. Father Jack was British boxer turned dressmaker in NYC's garment district, invested in oil post-WWII. Marvin joined after NYU, became adept wildcatter: purchased cheap Rocky Mountain oil leases. Sold lucrative properties to Hiram Walker 1981 for $630 million. Diversified interests: bought Twentieth Century Fox with Marc Rich *(which see)*; bought Rich's share, sold in 2 parts to Rupert Murdoch. Sold duffers' paradise, Pebble Beach golf course, to Japanese 1990 for estimated $900 million. Aspen Skiing Co. estimated $350 million profit. Still battling 1985 suit that claims Davis misrepresented some wells' results. Purchased Beverly Hills Hotel 1986 from Ivan Boesky for $135 million, flipped to Sultan of Brunei 1987 for $200 million. "Marvin will get your last nickel." Holds other real estate through Miller-Davis. Considered buying Lorimar Telepictures, MGM/UA Communications, LA Herald Examiner. Made runs at airlines 1989: UAL, netted $100 million; Northwest, netted $25 million. Party-goer, into Hollywood glitz but shuns press. Estimated at $1.3 billion.

John T. Dorrance III
Bennett Dorrance
Mary Alice Dorrance Malone

Brothers, sister. Campbell Soup. Grandfather John T. Dorrance Sr. brilliant chemist (passed up professorship for job at uncle's Campbell Preserve Co. making $7.50 per week 1897) who served up soup in cans. President of company 1914, showed he was also talented marketer: "We were the original advertiser in many ways." On death 1930, left $128 million estate to wife, 5 children. His son John T. Jr. (d. 1989) hourly factory hand 1946; chairman 1962. Company increased varieties, added fresh, frozen foods, poultry, etc., 1950s. J.T. Jr. left most of his 50% to his children and grandchildren. John T. III (Ippy): Devil's Tower, Wyo. 47. Married, 2 children. Campbell director; personally manages his 17,000-acre Ipy Ranch. Bennett: Paradise Valley, Ariz. 45. Married, 2 children. Director, also runs DMB Associates (investments, suburban office buildings) in Phoenix. Mary Alice: Coatesville, Pa. 41. Married, 2 children, 2 stepchildren. Has horse-breeding operation at Iron Spring Farm. Three siblings united against other family members *(see Hamilton, et al.)* who wanted to sell the "company that had turned a nation on to soup." Their 32%, etc., recently worth $3.75 billion.

John Abbott

Leslie Herbert Wexner, worth $2.5 billion
Unlimiting the Limited.

William Bernard Ziff

Publishing. Manalapan, Fla. 61. Divorced, remarried; 3 sons by first marriage. Father WWI aviator, noted lecturer, author, cofounded Ziff-Davis 1927; died 1953 when William was 24. "I didn't grow up with businessmen as my heroes, but my dad died and I wanted a piece of him." Bought out Davis at 27; expanded into upwardly mobile niches: Car & Driver, Boating, Yachting, etc., ultimately some 35 magazines, 6 TV stations. Liquidation while fighting cancer 1980s: sold stations for about $100 million 1983; 12 trade magazines to Rupert Murdoch *(which see)* for $350 million, 12 consumer magazines to CBS for $362.5 million 1985. CBS filed suit against Ziff-Davis, claiming misleading financial information, inflated sale price; CBS sold at profit 1987 but still seeks extensive damages. Ziff still chairman Ziff Communications. Kept, built up computer-related titles, e.g., PC Magazine, PC Week, PC/Computing; now has total circulation 2.7 million; prospering.

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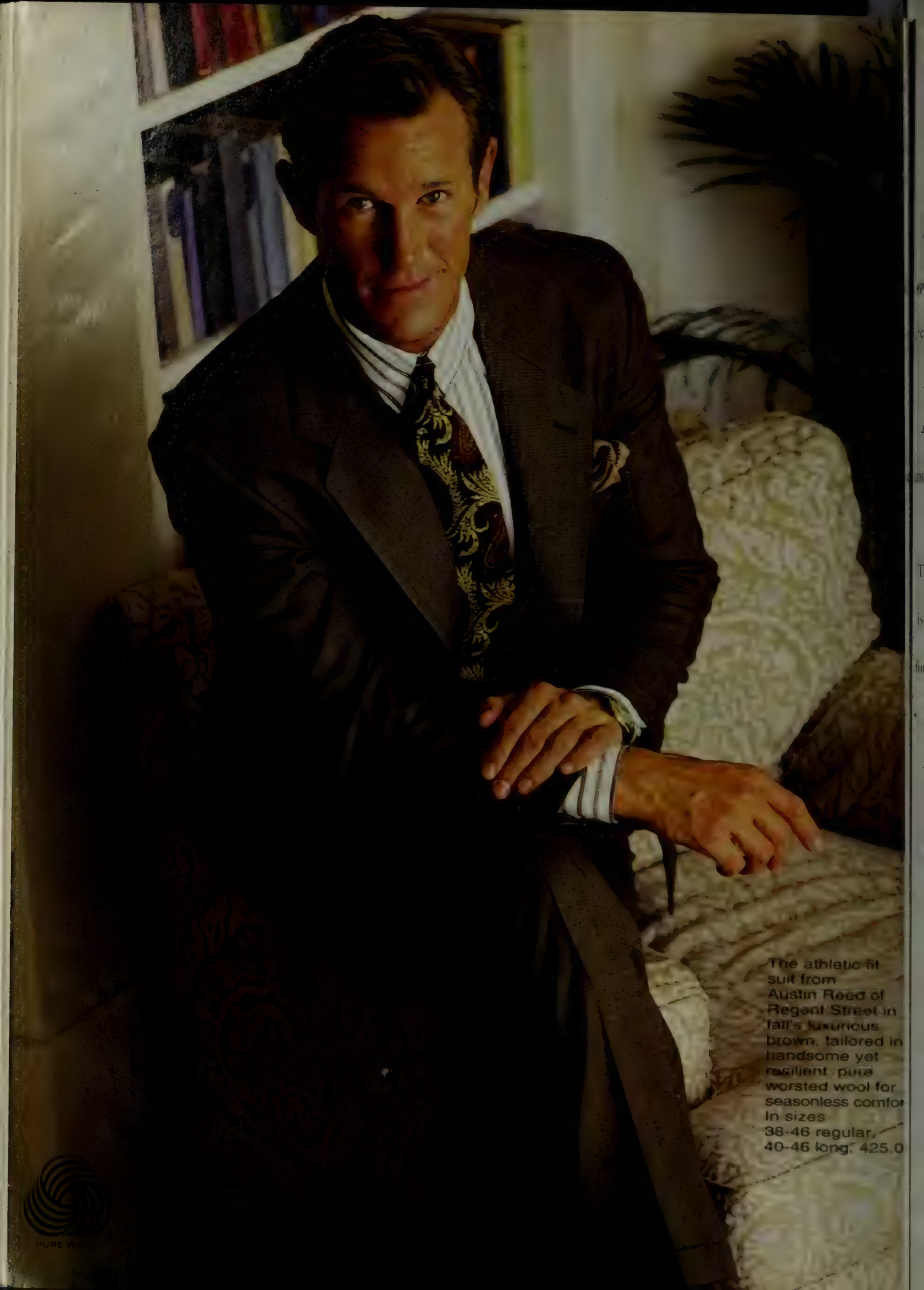
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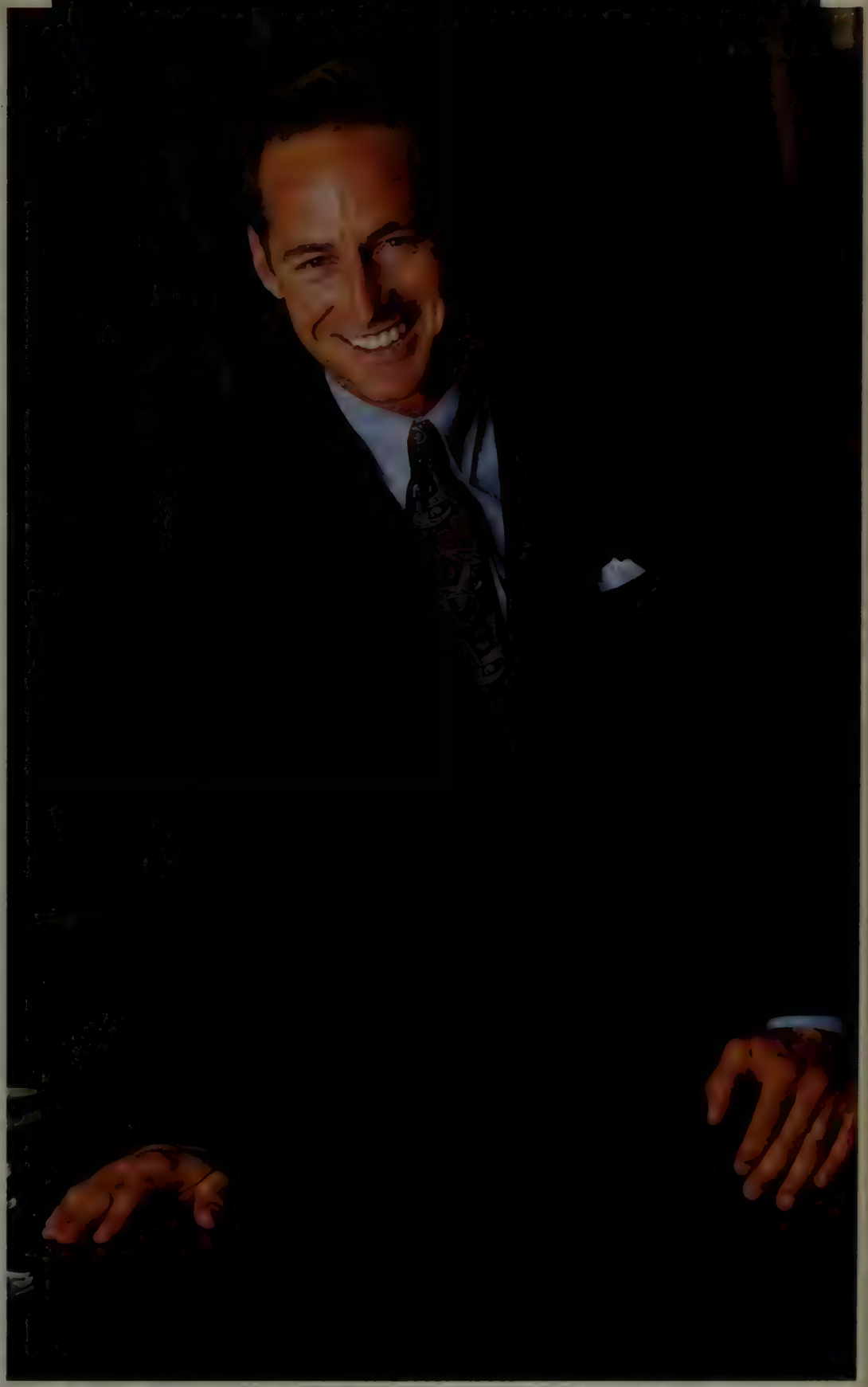

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Dillard's

"The idea that print is dead is preposterous." Fortune, including $400 million trust for children, estimated at least $1.25 billion.

Ray Lee Hunt and family

Inheritance, oil, real estate. Dallas. 48. Married, 5 children. Runs fortune for "second family" (of three) of H.L. Hunt, legendary oilman who married Ruth Ray and adopted kids 1957 after death of first wife 1955 (long kept secret from each other—*see Caroline Hunt, Margaret Hunt Hill*). His mother, Ruth Ray Hunt: Dallas. 74. Widowed, 4 children. His sister Ruth June: Dallas. 46. Single. Sister Helen: NYC. 42. Divorced, remarried; 6 children. Sister Swanee: Denver. 41. Divorced, remarried. Family inherited Hunt Oil Co., etc. 1974; split from first family, but on agreeable terms. Ray: Conservative money manager, turned company around, expanded. Hit real big time with North Yemen oil strike 1984; 10% Beatrice oilfield in North Sea. Also Woodbine Development, other Dallas, Fort Worth real estate; oil refinery, etc. Active in civic affairs. "Because of the way he spells his last name, Ray's had to earn his respect twice." Ruth June professional Christian speaker-singer; Swanee, Helen help social causes for mentally ill, poor. Not involved in first family's silver debacle, bankruptcies. Net worth estimated $1.25 billion.

Leonard Norman Stern

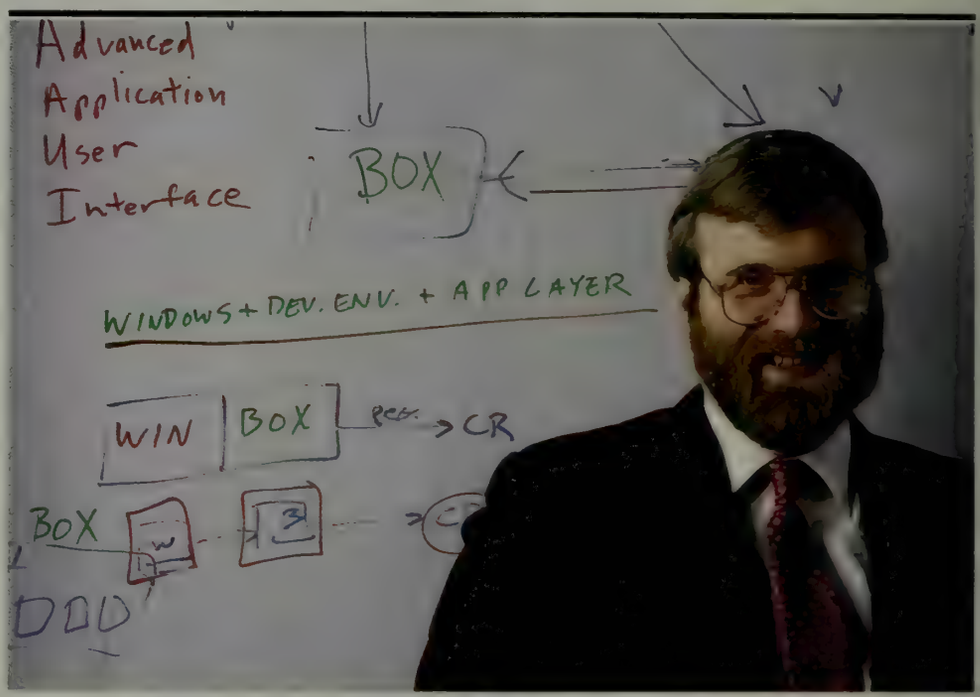
Pet supplies, real estate, publishing. NYC. 53. Divorced, remarried; 3 children. Father Max came to U.S. with 2,100 canaries from Germany's Harz Mountains 1926; sold birds, related products. Leonard earned M.B.A. by night, took over company at 21, added dog and cat supplies, made Hartz industry leader; 1970s antitrust suits cost him $50 million in settlements. Now over 1,200 pet supply products; estimated 1990 sales near $1 billion. Built separate real estate fortune developing New Jersey Meadowlands (empty marshlands near NYC), waterfront areas: office, industrial, condo space, much land still empty. Bought Village Voice for $55 million 1985. Started NYC weekly 7 Days 1988 but folded 1990—too many losses, too few paid subscribers, no ready buyers. Gave alma mater New York University $30 million for business school 1988; also backs shelters for the homeless: "My kids will have less, but I'm doing something in my life that pleases me." Kids may get by: estimated $1.2 billion fortune.

Daniel Keith Ludwig

Shipping, real estate. NYC. 94. Divorced, remarried; 1 daughter by first marriage, 2 stepchildren. Son of Michigan real estate agent. Quit school at 19, borrowed $5,000 to convert old steamer. In 1930s chartered tankers to oil companies, used leases as collateral to build the tankers. In WWII built U.S. government tankers, got them back free after V-J Day: world's third-largest tanker fleet. Postwar built first supertankers in low-cost Japanese shipyards. Invested in real estate, mines, oil and gas around world. Sank over $1 billion into Amazon wood pulp empire, towed power plant and paper mill from Japan; lost all. Shipping empire allowed to shrink. Invested in 4 savings and loans now managed by Resolution Trust. $1 billion N.J. development project opposite Manhattan stalled since 1983. Gave foreign assets to Swiss cancer institute 1971 but controls it as private corporation. Reclusive, allowed photo in 1985 after 20 years. Used to walk to work, flies commercial. Once told employee: "Working on a deal is better than a climax." Fortune estimated at $1.2 billion.

Samuel Curtis Johnson

S.C. Johnson & Son. Racine, Wis. 63. Married, 4 children. Great-grandfather parquet flooring salesman, founded famous floor wax firm 1886. Sam fourth generation, new-products director 1955; encouraged non-Johnson's Wax items (Raid, Glade, Edge, Agree), now among company's most profitable lines. "We are polishing the floors and furniture, cleaning the rug, killing the bugs, sweetening the air and waxing the old man's car. And whenever you get bit by a mosquito, remember I'm smiling." Highly secretive about business. But took his recreational accessories company Johnson Worldwide Associates public 1987 to give heirs liquidity. Four children with firm: Curt, 36, runs business development; Helen, 34, U.S. marketing services; Fisk, 33, Canada general manager; Winifred, 31, public relations. Sam controls 60% of more than $3 billion sales wax company, etc. Relaxes with hunting,



Matthew M. Van/SABA

Number 16, Microsoft cofounder Paul Gardner Allen

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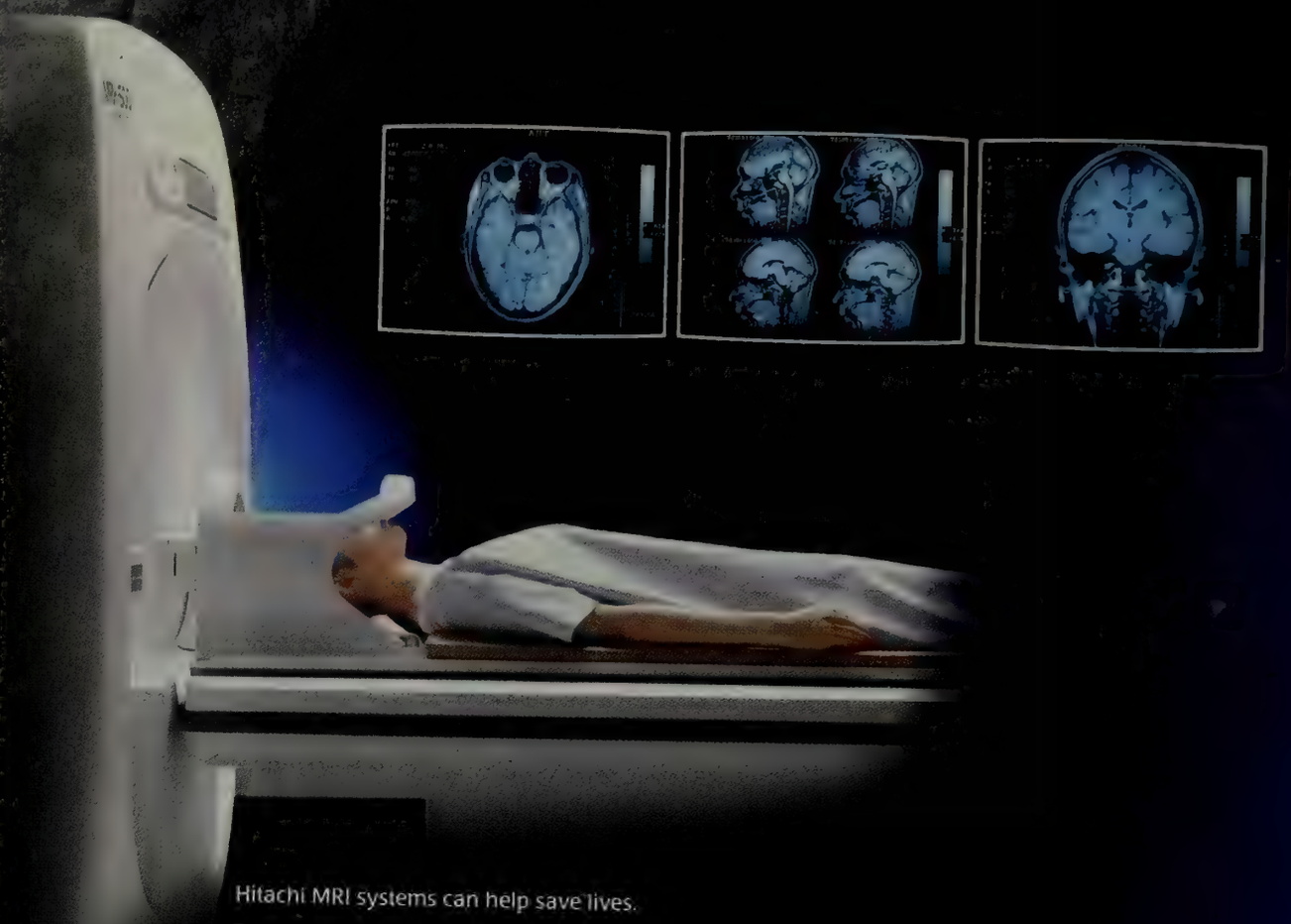
In medicine, a good image is imperative.



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fishing, photography, flying (holds commercial pilot's license for jets). Johnson can afford more than enough jets: estimated net worth over $1.15 billion.

Laurence Alan Tisch
Preston Robert Tisch

Brothers. Loews Corp. Beginning with Lakewood, N.J. resort (bought with father Al 1946); built $17 million Fla. hotel without mortgage 1958, now 15-hotel chain. Acquired control Loews Theatres, Inc. 1959; over years, moved company into tobacco, insurance, Bulova watch. Larry's roguish love for corporate rebounds inspired purchase of nearly 25% CBS stock; led to boardroom coup 1986. Larry's efforts to turn around: swiftly sold magazine, record, music publishing divisions 1987-88, paid down some debt. Lately family investing in could-be-bargain bank stocks (fund guided by Larry's son Tom), underwrote risky Saatchi & Saatchi stock offering. Larry: NYC and Westchester, N.Y. 68. Married, 4 children. "Mr. Inside," behind-the-scenes financial and strategic genius. Graduated NYU at 18, master's electrical engineering, attended Harvard Law. Business philosophy: "Profits will follow from quality"; image taking beating at CBS, hopes sports programming will spark network. Eldest son, Andrew, runs Lorillard (tobacco). Bob: NYC and Rye, N.Y. 65. Married; 2 sons, 1 daughter. "Mr. Outside," client-oriented. As U. of Michigan graduate student, aggressively sold 10-cent key chains before football games. Left Postmaster General post March 1988, after negotiating union contract that eluded predecessors 12 years. Hobnobs with Democrats, Republicans; recently purchased half of N.Y. (football) Giants for $75 million. Son Jonathan, son-in-law of Saul Steinberg, runs Loews Hotels. Active philanthropists, NYU donations alone exceed $45 million. With Loews stock, real estate, other assets, each brother is worth at least $1.15 billion.

Edward Crosby Johnson III and family

Fidelity Investments. Boston. 61. Married; 2 daughters, 1 son. Father, Edward II, lawyer, acquired failing Fidelity Management Corp. 1946; built leading mutual fund manager. Includes biggest stock fund, Magellan (assets, $17 billion). Son "Ned" chief executive 1972; weathered decade's industrywide downturn; rebounded as Johnson pushed money market funds, also computerized the business. Big on service: first to offer withdrawal by check. Created mutual funds for every investor strategy to gain market share. Expanded services in face of 1987 stock market crash; currently nurturing discount brokerage firm, international funds. With $145 billion under management, Ned's, family's estimated 47% stake worth $1.1 billion.

Reuven Krupik Ironik/Black Star

Edgar Miles Bronfman Sr., worth $2.3 billion
A big fan of Lech Walesa.

Donald Leroy Bren

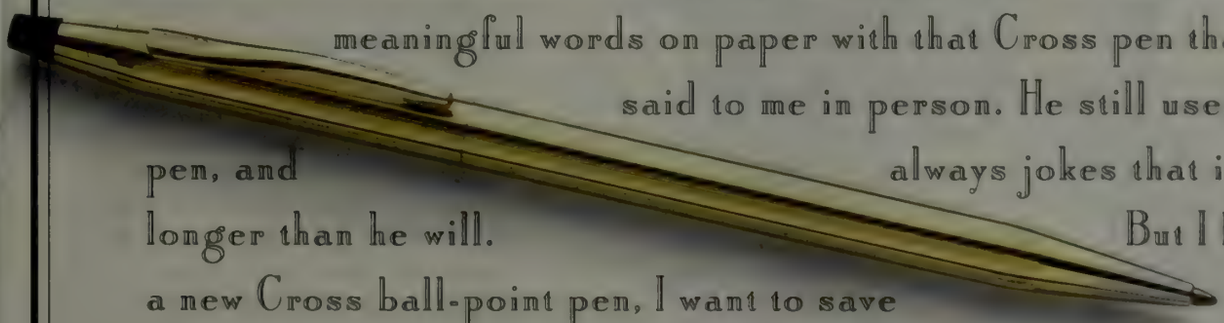
Real estate. Newport Beach, Calif. 59. Twice divorced, 4 children (new baby with longtime companion). Hollywood rich kid: Dad was real estate developer/movie producer Milton Bren, stepmother actress Claire Trevor. Built hot rods in high school; attended U. of Wash. on skiing scholarship, lost Olympics bid 1956; Marine Corps. With $10,000 bank loan built first house 1958; flourished in ensuing home-building boom. Sold out 1970 to International Paper for $34 million; bought Bren Co. back 1972 for reported $22 million. Big break 1977 when tapped to join Al Taubman, Milt Petrie, Max Fisher, Herb Allen, others to buy Irvine Ranch. "Each of their egos could fill the room." Bought out most partners for $518 million 1983 (valuing property at $1 billion). Partners/original owners Joan Irvine Smith and Athelie Clarke would not sell, sued, won over $250 million. Bren now controls 63,000 acres Orange County; expensive condos, office parks, etc., so far cover 5%: "The land is my canvas. It's my way of expressing myself." Growing environmental no-growth forces pushing for minimalist art. Estimated worth over $1.1 billion.

David Rockefeller Sr. and family

Inheritance. Banking, real estate. NYC, Tarrytown, N.Y. 76. Married, 6 children. Grandson of John D.

My Rock Of Gibraltar.

He looked like a young George Burns. That's what all the girls used to say. He actually used to call me Gracie. When he was shipped overseas he wrote twice a week. He sent letters from Germany and Paris, and once he even sent one from the front lines. I think he's written more meaningful words on paper with that Cross pen than he's ever said to me in person. He still uses the same pen, and always jokes that it will last longer than he will. But I bought him a new Cross ball-point pen, I want to save the old one for myself. It reminds me of the time when I received a bunch of letters addressed to a girl he called Gracie.



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Rockefeller; youngest of 5 brothers *(see Rockefeller family, Laurance, Winthrop)*. Still chairman Rockefeller Group, but 80% of highly diversified investment firm (real estate finance, brokerage, development; leveraged buyouts; bridge loans; portfolio management, et al.) now belongs to Japan's Mitsubishi Estate Co. Ph.D. economics U. of Chicago 1940. Only brother with successful career in traditional family business, Chase Manhattan Bank CEO 1969-80. Took up mantle of international statesman. Major role NYC real estate (including ill-fated Westway project); 40% San Francisco's Embarcadero Center. Led family in 1985 cash-out of Rockefeller Center, acceding to wishes of cash-hungry younger relatives. His investments in real estate, his branch's family trusts, etc., estimated at least $1.1 billion.

Edward Lewis Gaylord

Broadcasting, publishing, real estate. Oklahoma City. 72. Married, 4 children. Worked in shadow of father, E.K., who bought into Daily Oklahoman 1903 and became one of state's power brokers; E.L. finally in charge when father died 1974, age 101. Hankering for country music led to $250 million purchase of Grand Ole Opry, Opryland USA and now thriving Nashville Network (including TV show *Hee Haw*). Made over $100 million selling Telerate stock in exchange for Dow Jones shares; sold two TV stations at 1987 market peak for $425 million. Now Oklahoma Publishing Co. includes newspaper, share in Texas (baseball) Rangers; 4 TV, 3 radio stations, various cable systems. Conservative, opinionated: TV networks "are too liberal and biased—they're anti-American, is what they are." Fortune conservatively estimated at about $1.1 billion.

Michel Fribourg and family

Grain trader. NYC. 78. Widowed, remarried; 5 children. Michel's great-great-grandfather started trading grain Belgium 1813; son prospered trading gold for wheat during 1848 famine. Family sent managers to found Continental Grain Co., Chicago 1921; immigrated after France fell 1940. Michel left U.S. army intelligence to take over on father's death 1944. Diversified into other agribusiness areas (sixth-largest poultry producer, top animal feed producer, hogs and cattle, specialty baking, flour milling), financial services; now merchant banking: "We have survived by working with our wits." Near $15 billion revenues, mostly low-margin grain trading. Made specialty of selling to Soviets for almost 30 years. Michel still chairman, son Paul executive vice president. Worth estimated about $1.1 billion.

Ray Stubblebine/AP Wide World

Ted Arison, with $2.3 billion

Run a tight ship, Micky.

Keith Rupert Murdoch

The News Corp. Ltd. Australia, London, NYC, LA. 60. Divorced, remarried; 4 children. Father Sir Keith celebrated editor Melbourne Herald. Rupert trained on London's Fleet Street. Oxford 1953. Took over Adelaide News age 23. Famous for sensational tabloid headlines: "Queen Eats a Rat." Bought Sydney Daily Mirror 1960. Diversified into TV, magazines, book publishing. Bought U.K. publications; to U.S. 1974 (N.Y. Post, Elle, Boston Herald, et al.). Bought Twentieth Century Fox, Metromedia TV stations. Owns Fox Broadcasting. Sold Premiere, Soap Opera News, New York magazine etc. to KKR for reported $650 million. Company highly leveraged but News shares, other assets some $1.1 billion.

Harold Clark Simmons

Investments. Dallas and Montecito, Calif. 60. Twice divorced, remarried; 4 daughters, 2 stepchildren. Son of Texas schoolteachers, worked as bank examiner, bought Dallas drugstore with $5,000 equity at 29. Created 100-store chain, sold to Jack Eckard Corp. for $50 million in stock 1973. Independent raider, collected conglomerate (chemicals, oil, sugar, fast food) through hostile takeovers; greenmail helped, too (GAF, $138 million; SeaLand, $89 million): "Everybody's got to do something." Most assets now in Valhi Corp., also real estate Tex., La., Colo., Ariz. Increased stake in Lockheed to 20% last year; proved big mistake: lost over $35 million. Bloodied but unbowed; amassing cash pile for the right deal. Active philanthropist: $10 million for arthritis research center 1985 (longtime sufferer), $41 million to U. of Texas Southwestern Medical Center 1988: "What do they think I am going to do with my money?" His answer: leave majority of assets to medical foundation. Family man; skier, tennis player. Stock, real estate recently estimated $1.1 billion.

Samuel J. Heyman ★

Corporate raiding, inheritance. 52. Married, 4 children. Yale; Harvard law degree; worked under Bobby Kennedy at Justice Dept.; became chief assistant U.S. Attorney in Conn. Moneyed background. When father died 1968, wanted to liquidate family real estate business: "It became so fascinating I decided to stay." Specialized in shopping malls. Then bought GAF shares 1981; successful proxy fight against "selfish management" put Heyman in control. Through Drexel's junk bond network, went after competing Union Carbide (stock manipulation charges against GAF), Borg-Warner; made over $450 million. Took GAF private 1989 through $1.4 billion LBO. Recently took public GAF specialty chemical units, dubbed International Specialty Products, on hope to expand internationally. Owns 85% GAF, but privately held debt reduces estimated worth to presumably unselfish $1.1 billion.

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THE POWER IS ON

Milton Petrie

Petrie Stores. NYC, Southampton, N.Y. 89. Twice divorced, widowed, remarried; 3 children. Son of Russian immigrant pawnbroker who went broke. Started as $10/week department store clerk after high school, later lied way into advertising jobs. Changed named from Petrovitzky, opened a hosiery store 1929 in Cleveland with $5,000 (half of it won playing craps). Bankrupt by 1937, repaid his creditors within next two years. Continued expanding company through acquisitions. Now a successful chain of women's specialty stores (1990 revenues, $1.3 billion), "bubble gum" generation makes up the bulk of Petrie's clientele virtually nationwide; trade names include: Marianne, G&G, Stuarts. Owns 14.1% Toys "R" Us, 23.4% Paul Harris Stores, 18.2% Deb Shops. Harris just filed for bankruptcy, Petrie not yet selling off. Crusty, tough boss; yet office filled with teddy bears, gives away money spontaneously and anonymously to persons in need. "I try to pay the good Lord back for what he's done for me." Works mornings, plays bridge afternoons. His stock, other assets worth more than $1 billion.

Philip Frederick Anschutz

Oil, railroads, investments. Denver. 51. Married, 3 children. Kansas native, played piano at U. of Kans. frat parties. Father Fred oil rig operator, unknowingly bought ranch on oil-rich land; Phil bought dad out 1961, sold rigs. Aggressively pursued oil, gas leases. Struck it rich at Anschutz Ranch East in Wyo. and Utah 1970s; current crude reserves estimate about 50 million barrels. Sold Mobil half interest for $500 million 1982. Went into stocks, minerals, real estate (Denver's Anaconda Tower, Hyatt Hotel). Bought Rio Grande Railroad for $500 million 1984; added Southern Pacific 1988; still buying small lines. Controls network from Mississippi River to Calif., Mexican border to Wyoming; sold 175 miles of railroad rights to Los Angeles County 1990. Morgan Stanley in railroad deal with him; turning out better for Anschutz. Late last year sold 5% of debt-laden parent company Rio Grande Industries to Nippon Yusen Kaisha, Japan's largest shipping line, for estimated $75 million. Major Western art collection toured the Soviet Union in 1989. Reportedly marathon runner. Worth believed over $1 billion.

Kevin Horan/Picture Group

Robert Alan and Jay Arthur Pritzker, each with $2.25 billion
Says Jay: "Because of Dad, I could get anything from the bank, even if the request was unreasonable."

Margaret Hunt Hill and family

Inheritance, oil. 75. Widowed, 3 children. Eldest daughter of legendary wildcatter H.L. Hunt *(see Caroline Hunt)*: He taught her oil business when young. Controls trust for first-born son, Hassie (reclusive, history of mental illness, childless). Stayed away from brothers' silver debacle. Helped them out buying their repossessed land after 1980 silver crash. Reportedly insisted "the boys" use additional personal assets to secure company; she denies. With sister Caroline, pulled out her and Hassie's share family oil trusts 1983. Now runs separate oil, real estate operations. Son Al runs Hill Holdings Inc., managing partner of Hill Investments Ltd. Al owns video production company AGH Productions: corporate training, commercials, sports instructional videos. Her fortune, including Hassie's trusts, is estimated at over $1 billion.

Jack Kent Cooke

Real estate, investments, sports. Middleburg, Va. 78. Married for fourth time last year; 2 sons by first wife; daughter by third (who signed, ignored prenuptial agreement to terminate pregnancy) when he was mid-70s, she was early 30s; third divorce media event, Cooke only recently met his daughter. Ontario-born to picture-frame seller ruined in Depression. Jack sold encyclopedias door-to-door; bought into first radio station age 25, then newspaper chain, magazines. Millionaire before 30. Sold all properties; naturalized by act of Congress 1960. Bought LA (basketball) Lakers; brought in Wilt Chamberlain, Kareem Abdul-Jabbar, Magic Johnson; built Forum; sold all 1979. Bought NYC's Chrysler Building, other properties for $87 million 1979; refinanced for $250 million 1987. Owns Los Angeles Daily News. Bought cable systems for $1 billion 1987; sold 1989 for $1.6 billion "mostly cash" before cable market turned; only recently closed deal. Probably won't sell Washington (football) Redskins: planning $175 million D.C. stadium. Keeping cash safe in CDs, far from stock market, total fortune estimated $1 billion.

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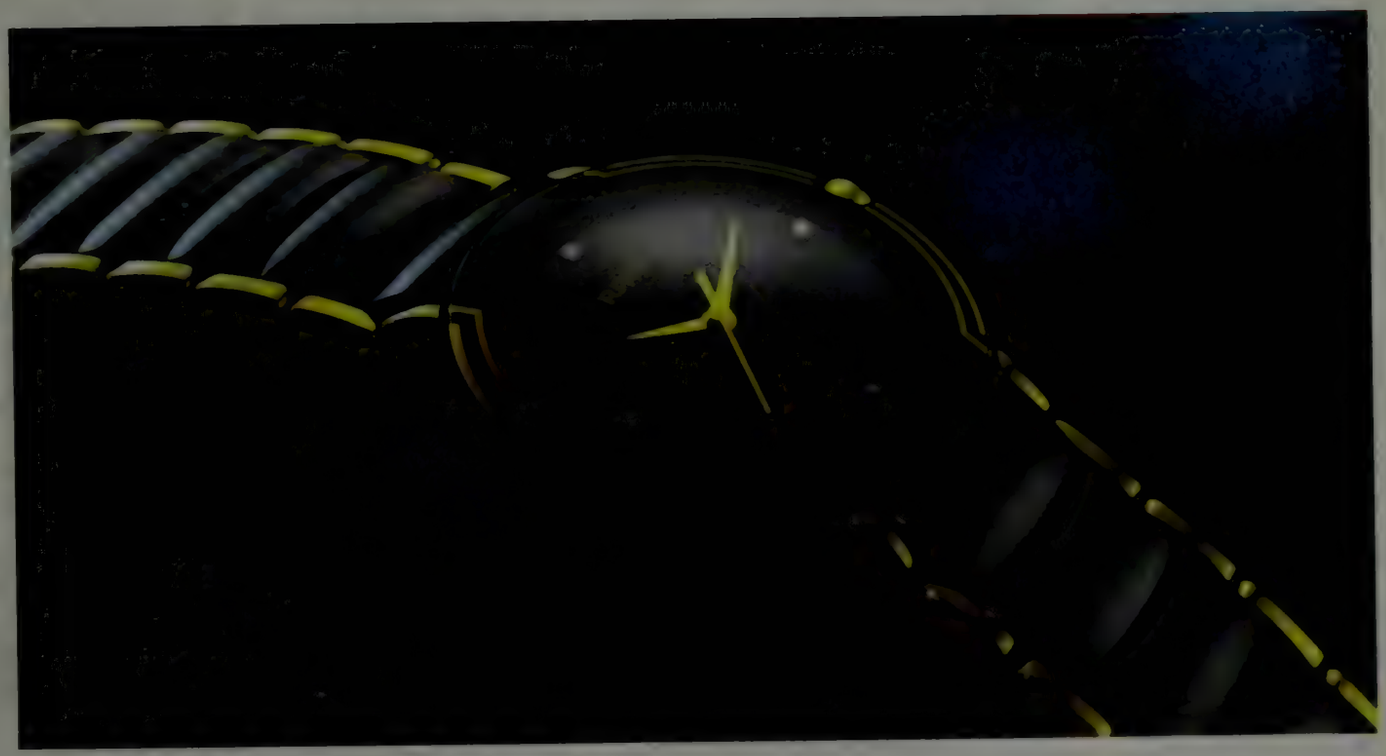

The dome-like scratchproof sapphire crystal is bonded to a case and bracelet of scratchproof high-tech ceramics (similar to those used in spacecraft).

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Brian Smale/Onyx

Henry Ross Perot, worth $2.2 billion
"You can put me on your list as worth a dollar."

William Redington Hewlett

Hewlett-Packard. Portola Valley, Calif. 78. Widowed, remarried 1978; 5 children, 5 stepchildren. Met co-founder David Packard *(which see)* as Stanford undergrad. With $538 duo set up electronics company in now-famous Palo Alto garage behind Packard's house 1939. Bill supplied technical expertise. First breakthrough product, audio oscillator, based on Hewlett's design developed for MIT master's thesis. Walt Disney bought 8 to film *Fantasia,* boosting HP. Other early products developed to "bring in a nickel" but never did: automatic urinal flusher, shock machine to spur weight loss. But technological advances spurred expansion: e.g., in 1972 Hewlett ordered up calculator to fit his shirt pocket; other products include desktop computer systems, LaserJet printer, etc., etc. Hewlett insisted on first names in the office; managed by "wandering around." Retired 1987. Not a romantic about past; on garage's receiving landmark designation: "The only trouble is, you can't tear it down now." His shares of HP recently worth $1 billion.

Joan Beverly Kroc

Inheritance. Rancho Santa Fe, Calif. 63. Divorced, widowed; daughter by first marriage. Third wife of Raymond Kroc, who dropped out of high school to become a jazz pianist, later a paper-cup, milkshake-machine salesman out of Chicago; bought into McDonald brothers' San Bernardino burger joint 1954, bought them out for $2.7 million 1961. McDonald's Corp. now world's largest chain fast-food restaurants. Joan worked as a musician, music teacher. When 28 met Ray, then 54; wed 1969. After Ray's death 1984, Joan showed bent for altruism: Ronald McDonald children's charities, et al. Former fat cat for Democrats. Art collector: owns Fabergé egg acquired for $3 million 1989. Former owner San Diego (baseball) Padres, bought by Ray in 1974 for $11 million, sold last year for $75 million. Says her actions are result of her "love affair with life." Her Mcstock, other assets, recently worth very romantic $1 billion.

James Lawrence Walton

Wal-Mart Stores. 69. Bentonville, Ark. Divorced; 2 children. Ran small five-and-dime store in Missouri. Pooled resources 1950 with older brother Sam Walton *(which see)* to pursue merchandising idea of large discount stores in rural towns. Brothers expanded chains to 15 stores next 10 years; became Wal-Mart 1962. James (Bud), the quieter of the two, looked after the real estate. Brothers still close. Company now largest retail store in the country (1990 sales, $32.6 billion). Currently senior vice president. Arkansas' happiest good ol' boy. Travels to fish (Alaska, Argentina, etc.). His 20.4 million shares Wal-Mart stock recently worth over $1 billion.

Curtis LeRoy Carlson

Entrepreneur. Long Lake, Minn. 77. Married, 2 daughters. Father Swedish immigrant grocer; young Curt subcontracted his paper routes to brothers, reaped small profit. U. of Minn. 1937; sold soap for Procter & Gamble, $110/month. With $50 loan, founded Gold Bond Trading Stamp Co. 1938, sold idea to grocery stores with help of wife dressed in majorette costume. "The minute I got out on my own, I knew that I'd found my element." Purchased first hotel 1962; zealously built one-man conglomerate with Radisson Hotels (many franchised), Country Kitchen restaurants, TGI Friday's restaurants, Carlson Travel Network (formerly Ask Mr. Foster), Carlson corporate motivation and promotion divisions; ruffles many feathers at "Ulcer Alley" with mercurial management style. Recovering from recent quadruple heart bypass surgery but returning to speed; gradually turning over control to son-in-law Edwin C. (Skip) Gage. Estimated worth $1 billion.

THE RETIREMENT FALLACY

U.S. PROSPERITY THREATENED

By John L. Steffens

It is rare to find the people on Capitol Hill agreeing on anything. But a consensus is beginning to form on a vital issue facing the U.S.: We must save more if we want to establish a secure future for ourselves and our children.

It is more than an issue of national pride. Our country's prosperity is threatened by low saving. As Alan Greenspan testified recently before the Senate, "The damage from low saving doesn't show up immediately. It is more insidious—it chips away at the productivity gains we are able to achieve over time; it gradually hampers our competitiveness in international markets; and after a period of years, it results in a lower standard of living than we would otherwise enjoy."

The U.S. must respond to the need for increased saving or risk jeopardizing our future quality of life.

THE NEED FOR ACTION

There is an urgent need to increase saving in the U.S. Changing demographics and an aging population will place new demands on American saving.

By the year 2000, 35 million people, one-eighth of the population, will be over age 65. By the year 2010, older Americans will account for a health care bill approaching $1.5 trillion (in current dollars). Each individual over age 75 will pay an annual health care bill of $10,000.

Will we be able to provide for a much larger older population without losing the ability to support ourselves?

We'll only succeed if individuals, corporations and policymakers act now to forge a new partnership aimed at rallying the population to increase saving.

For individuals, this means creating saving programs designed to finance retirement and other financial goals and objectives. It also requires a personal commitment to alert our fellow citizens, government and corporations to the saving crisis. We must challenge our elected officials and those running for office next year to stimulate saving by providing the tax incentives this country needs to save more.

Government must heed the call and spur saving by providing incentives to channel present income into those tools that will finance future growth and expansion.

The Bentsen-Roth Super IRA initiative would restore eligibility to all American workers. The Super IRA provides for tax-free growth and the option of upfront deductibility and/or tax-free withdrawals on after-tax contributions, with a five-year holding period. This would be a powerful tool to motivate more Americans to save. The Bush Administration's proposed Family Savings Account, which provides tax-free growth and withdrawals on after-tax contributions with a seven-year holding period, is also a step in the right direction.

At the same time, corporations need to respond to employees'

We must save more if we want to establish a secure future for ourselves and our children

John L. Steffens is Executive Vice President, Merrill Lynch & Co., Inc., Private Client Group, as well as National Chairman, Alliance for Aging Research

THE RETIREMENT FALLACY

retirement needs with education and diversified investment options from which employees can choose. Benefits managers must make certain that employees clearly understand the nature of long-term investing, so retirees can build financial independence.

But the ultimate responsibility for increasing savings in this country still falls upon the individual. Americans must come to terms with the financial realities of retirement and take the initiative to create their own saving programs designed to finance future goals and objectives. The alternative is an insecure future that could substantially reduce the future quality of life.

OUR EXPECTATIONS

During the next 25 years, the number of Americans between the ages of 45 and 64 is projected to increase more than 70%, according to a study by the Boettner Institute of Financial Gerontology in Bryn Mawr, Pa. This is the period of life when people need to intensify retirement planning and increase saving, particularly if they have deferred saving earlier.

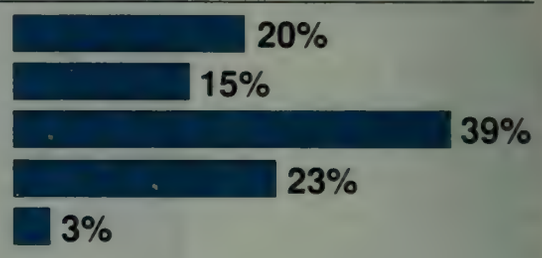
The Third Annual Merrill Lynch Retirement Planning Survey reveals that many middle-aged Americans do not understand the urgency of the situation.

The survey, which interviewed 400 Americans between the ages of 45 and 64, found that nearly three-quarters of those polled expect their standard of living to remain the same during retirement. Few of these Americans understand where their retirement money will come from. Fully 39% believe Social Security will be their main source of retirement income.

Preretirees' Perception versus Reality of Retirement Income

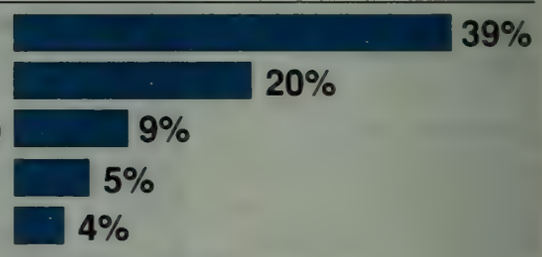
Actual percent of annual income from various sources:

Heads of households age 65+ and $20,000+ total annual income



Source: Department of Treasury, 1990

What one source do you feel will be the most important source of income you will live on after you have retired from the work force?



Source: Third Annual Merrill Lynch Retirement Planning Survey 1990

Americans are being called to action this year. We have to take a stand and let government and corporations know the U.S. is worth saving.

Furthermore, recent data reveal the U.S. has one of the lowest saving rates in the industrialized world.

For a free copy of "The Future Doesn't Add Up," Merrill Lynch's Third Annual Survey of Preretirees and Corporate Benefits Managers, call 1-800-637-7455, ext. 8064.

AN INDIVIDUAL'S STAKE IN THE CRISIS

It's not so much that Americans do not want to save, it's that saving in the sense of accumulating significant assets requires planning and commitment.

That's where most Americans need help. The Merrill Lynch survey found that 70% of Americans age 45 to 64 accept responsibility for their own financial future, and 77% allocate some money to a retirement account. However,a large portion, 62%, agree that, "I just save what I can and hope that I will have enough to live on in retirement." And 19% allocate absolutely nothing!

Recognizing the need to save is only half the battle in overcoming retirement income shortfalls. The investments you choose to ensure your financial future are equally important.

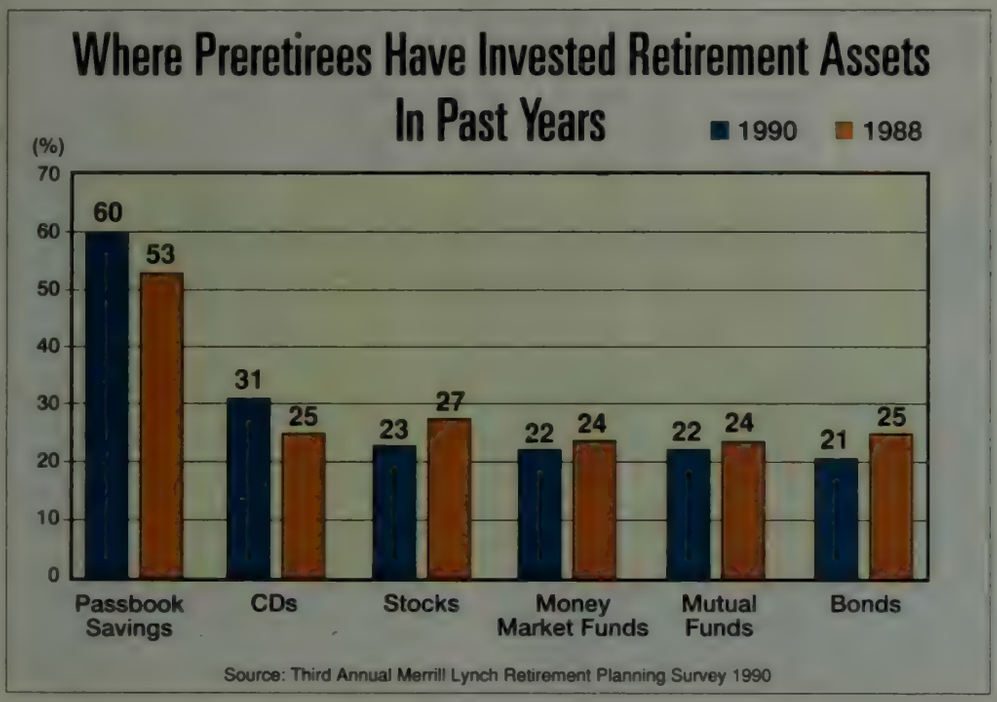
THE RETIREMENT FALLACY

INVESTMENT ALTERNATIVES FOR YOUR RETIREMENT PLANNING NEEDS

For many active investors in financial markets, mutual funds have become the investment medium of choice. Because they provide diversification, professional management and low costs, mutual funds offer a cost-effective and easy way to invest money. Coupled with dollar cost averaging, or the strategy of investing a fixed-dollar amount at regular intervals, the ownership of mutual funds can increase growth and minimize risk by spreading purchases over several different time periods. Similarly, defined asset funds or unit investment trusts offer the benefit of professional selection and a range of investment alternatives.

For more conservative investors, fixed and variable annuities and whole life insurance including variable life and universal life can help build significant assets for retirement on a tax-favorable basis. Tax-exempt municipal bonds can be another excellent alternative for investors seeking tax-free income. Zero-coupon instruments provide the comfort of knowing exactly how much a sum of money will grow to in a given number of years. While the future value of zero-coupon instruments, if held to maturity, is fixed, their market value will fluctuate. Interest is usually taxable in the year it is earned, even though you don't receive any payments until maturity.

The Merrill Lynch Retirement Builder℠ program offers you a free personalized proposal that quickly estimates just how much you might need to afford the retirement lifestyle you desire. It also shows how much you need to save or invest each year to accumulate the necessary funds. For more information, contact a Merrill Lynch Financial Consultant or call 1-800-637-7455 ext. 8065.



Source: Third Annual Merrill Lynch Retirement Planning Survey 1990

LONG-TERM SOLUTIONS

When savvy investors look for long-term solutions, they seek out themes in the marketplace that suggest future strength. "The most profit comes from recognizing the right themes, not by saying where the market as a whole will be," says Merrill Lynch's Chief Market Analyst, Robert J. Farrell.

Which investment theme will dominate the 1990s? One phrase might sum it up: the reequitization of America.

As American industry fights to retain its worldwide preeminence, it is being forced to rebuild basic industries and infrastructure—the real economy. Basic manufacturing and new technologies for improving productivity should set the pace for the 1990s. These include capital goods, infrastructure rebuilding, engineering and construction and pollution-control industries.

"Rust-belt firms had to learn to survive during the last decade," says Farrell. He believes they have made important progress. "With leveraged buyouts and other forms of financial engineering expected to abate, more capital will flow into productive assets."

The shift away from debt financing in favor of equitization has already begun.

Since the beginning of 1991, prominent leveraged buyout companies, such as RJR Nabisco Holdings and Safeway, have issued equity to repay debt. Indeed, the market began to reward healthy balance sheets some time ago. Since the middle of 1989, the stocks of companies with low levels of debt outperformed the stocks of companies with high levels of debt.

THE RETIREMENT FALLACY

The Retirement Saving Gap

Merrill Lynch Market Planning has projected the gap between future retirement costs and what individuals will need to bridge the gap. The projections show the amount of saving that would be required to meet retirement costs for a couple at the indicated age and income levels, in addition to projected pension and Social Security benefits.

CURRENT AGE	ANNUAL SALARY	$60,000			$100,000		
		Total Required	Annual Saving As Fixed $	Annual Saving As % of Salary	Total Required	Annual Saving As Fixed $	Annual Saving As % of Salary
45	Total Retirement Expenses	$472,125	$11,517	14.06%	$879,299	$21,449	15.71%
	Income Maintenance	$228,661	$ 5,578	6.81%	$635,835	$15,510	11.36%
	Health & LTC Expenses	$243,464	$ 5,939	7.25%	$243,464	$ 5,939	4.35%
55	Total Retirement Expenses	$322,491	$23,341	33.12%	$597,563	$43,250	36.82%
	Income Maintenance	$183,950	$13,314	18.89%	$459,022	$33,223	28.29%
	Health & LTC Expenses	$138,541	$10,027	14.23%	$138,541	$10,027	8.53%

ASSUMPTION: All figs. are current $: Retirement age = 65: Male mortality = 78, Female mortality = 87: Savings for retirement begin at current age: Investment rate of return 7% after tax: Annual salary growth = 4%: Income maintenance = 60% of final working year's salary: Pensions = 18% of final working year's salary: Social Security projections from Social Security Administration: Trustee's Report, 1990: Health care expenses include out-of-pocket health costs, Medicare Part B premium and Medigap policy: Long-term Care expenses include LTC insurance policy: LTC deductible expense is first 90 days of a LTC facility—after 90 days insurance covers cost: LTC is needed for 3 yrs. of male's life. LTC insurance premiums do not continue while individual is in LTC facility: percent of salary needed to save is a constant percent of an increasing salary.

THE INTERNATIONAL ALTERNATIVES

When it comes to buying equities, people often opt to buy issues of domestic companies. To many investors, the mere thought of tackling the world of investing in international markets is as forbidding as the Berlin Wall once was. However, by failing to consider international equities, investors may be slamming the door on better returns, especially in light of the monumental changes of the last few years.

During the 1980s, the compound annual rate of total return in the U.S. stock market was 17.6%, compared with the major international markets, which ranged from 15.6% in Germany to 21.5% in Japan to a high of 23.9% in the U.K. (Source: Merrill Lynch Global Investment Strategy).

International investing may yield healthy returns, it also can diversify risk in a portfolio. To achieve diversity while avoiding the risk of small, thinly traded markets, investors may want to explore beyond the "Big Five" markets—New York, London, Tokyo, Frankfurt and Paris—and consider Sydney, Geneva and Toronto. The shrewd investor may also tap into above-average performance in the new growth economies of Hong Kong, Singapore and Spain. Some of the largest firms in the world are based in foreign countries which offer attractive diversification potential.

Diversifying in international equities is key, since the depreciation of one currency leads to the upswing of another. The difficulty of dealing in different currencies is less of an issue for equity investors than for bond investors. Mutual funds and defined asset funds are investment alternatives which provide easy diversification at a relatively low cost.

Recent changes in international markets could spell opportunity for investors seeking to enhance their returns and reduce risk. The dismantling of communism and the closer integration of Europe, coupled with renewed economic growth, provide new alternatives for U.S. investors to capitalize on international markets. ■

At the same time, the increased supply of equities isn't expected to depress stock prices. While more supply can suppress prices, other conditions usually dominate. For instance, in an analysis of stock prices versus new equity issuances during the past ten years, it was discovered that the two often move in tandem. The reason is that a rising market encourages companies to issue stock. More broadly, the economic environment that encourages companies to issue stock is also one that is generally favorable for stock market prices.

For a copy of our most recent report on opportunities in equities, call 1-800-637-7455, ext. 8066.

As baby boomers sort through their saving and investment alternatives, many of them will probably arrive at the same conclusion their parents did: Equities are one of the few investment alternatives that offer an individual a good chance of keeping up with the growth of the economy and inflation. Based on the Standard & Poor's 500 Index,

THE RETIREMENT FALLACY

the annualized total return (with dividends reinvested) on stocks since 1960 has been about 10%. That compares with a 6% annual return from Treasury bonds, 7% annual growth in home prices and 5% annual overall inflation rate. Even after adjusting for inflation, a $1,000 investment in the Standard & Poor's 500 in 1960 would be worth $4,400 today.

Those results suggest that demand for equities will remain strong throughout the 1990s and beyond. It couldn't come at a better time. Rebuilding the real economy is essential. America needs to meet the challenge of revitalizing its basic industries. Reequitization is here.

THE IMPLICATIONS

More American policymakers, corporations and individuals are reaching the conclusion that Americans must save more to ensure a stable future for themselves and their children.

America stands at a crossroads in its economic history. In the coming few years, it could achieve, as Merrill Lynch Chairman and CEO William A. Schreyer terms it, an economic and social "twofer." He says: "The twofer would provide both the economic benefit of adding to the saving pool, and the social benefit of giving the saver more control over the condition and quality of his later years." But that will only happen if all parties do their share to stimulate investment in the U.S.

Schreyer said it best in an op-ed column in the *Wall Street Journal:* "Through the generations, the dollars that Americans put aside helped sustain them in their old age—thereby lightening the load on their offspring."

"Equally important, through the miracle of time and compounding, the savings of those generations became a mountain of investment capital that built great factories, developed new technologies and financed magnificent universities—the very assets that make our nation, even today, the world's dominant economic power."

The 1990s will be a time of rebuilding for America—the reequitization of our industrial base. It couldn't come at a more opportune time. We need to place our resources where the probable returns—for ourselves and our country—are the greatest. Americans must become investors, which means putting money in the equities and mutual funds that will rebuild our country. Only then will we have protected ourselves from the erosion of inflation. Only then will we have taken the first steps to saving America. ■

YEAR-END TACTICS TO TRIM YOUR TAXES

Your investment tax strategies will become even more important as the costs of our aging population increase.

One step to investing and saving more is to reduce your taxes. Here are six tactics to reduce your 1991 taxes if you act before year-end. Before taking action, consult your tax adviser. A Merrill Lynch Financial Consultant can help execute the transactions.

Tax law changes under consideration in Washington could affect the strategies discussed below. Further, many state and local governments are also considering possible tax increases, which could affect tax planning moves.

1. Estimate your 1991 tax liability, including any alternative minimum tax liability, while there is still time to act.
2. Go short against the box, or buy put options, to lock in capital gains this year but defer taxes until 1992.
3. Where appropriate, realize capital losses to offset capital gains.
4. Contribute the maximum you can to tax-deferred retirement accounts.
5. Ensure deductibility of interest expenses by substituting tax-deductible home equity credit for non-deductible consumer debt. Ensure the deductibility of your investment interest expense by making certain that expense does not exceed your investment income.
6. Shift investment income to children up to the "kiddie tax" limit (up to $1100 for children under age 14).

For more information about these and other strategies, call 1-800-637-7455, Ext. 8067 and ask for our current brochure offering Tax Saving Ideas for Investors. If you own or run a business, call 1-800-637-7455, Ext. 8068 to get "How to Cut Your Business Tax Bill."

Cut taxes here:

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Mail to: Merrill Lynch Response Center
P.O. Box 30200
New Brunswick, NJ 08989-0200

☐ Please send me a free copy of the Merrill Lynch brochure, *89 Tax-Saving Ideas for Investors*, along with the special worksheet.

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_____

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Send for this free brochure today. And talk to an even more valuable source of information–your Merrill Lynch Financial Consultant.

For your free copy of *89 Tax-Saving Ideas for Investors* with the special worksheet, call toll-free, Monday through Friday 8:30 A.M. to 9 P.M. E.T. Or clip here and get the cut you deserve.

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Wild about Harry, Leona Helmsley stands convicted a decade later

Once it was ballroom dancing and holding hands for the cameras. But along with her conviction for tax evasion, Leona was convicted in the media as the Queen of Mean. The court ruled Harry incompetent to stand trial.

George Soros

Money manager. London, NYC, Southampton, N.Y. 61. Divorced, remarried; 5 children. Hungarian born, hid from Nazis in family's attic. Paris after war, then to London School of Economics; Wall St. 1956 as analyst, currency trader. Started Curaçao-based fund, now Quantum Fund, 1969, with colleague Jim Rogers (no longer involved): non-U.S. investors only. Twenty-year compound rate of return over 30%. Constantly traveling. Funded Budapest business school, first in Eastern Europe. Set up Hungary Fund 1989; resigned January 1991, citing conflict of interest with other funds. Puts money where mouth is: holds large number of shares in own Quantum Fund; with other assets believed to be worth $975 million.

Kirk Kerkorian

Investments. Beverly Hills, Las Vegas. 74. Twice divorced, 2 children. Son of Armenian immigrant fruit farmer; junior high dropout, lightweight amateur boxer; repaired and sold junk cars; trained U.S. fighter pilots, captain in Royal Air Force WWII. Flew surplus Air Force planes across Atlantic, built charter airline; sold company for $104 million profit 1966. Paid $82 million for 40% MGM in hostile takeover 1969, $380 million for United Artists 1981; merged both 1986. Shuffled assets in complex deal with Ted Turner 1986: MGM/UA to Ted for $500 million plus stock, bought back bulk for $480 million 1987. Recently sold entire bag to Giancarlo Perretti's Pathe for $1.3 billion. Since bought chunk of Chrysler; still shopping. Owns 81% MGM Grand: hotel-casinos, luxury airline; $700 million plan for Las Vegas movie theme park, 5,000-room hotel-casino. Claims never to have taken any salary or perks from companies. Worth over $965 million.

Marvin Maynard Schwan

Ice cream, pizza. Sioux Falls, S.D. 62. Divorced, remarried; 4 children. Father Prussian immigrant to Minnesota 1921; built dairy plant 1948. Son Marvin put self through Bethany Lutheran College, worked summers; joined family milk bottling plant 1950. Local price cap forced business out on road. Found isolated rural families eager buyers from Schwan trucks, soon equipped like traveling 7-Elevens. Now Schwan Sales Enterprises sales more than $1 billion, 2,300 computerized trucks, 49 states: dairy, frozen pizza, juices, more. Building pizza business, food supplies estimated 92% U.S. school lunch sales. Private, modest offices. Rival: "I have never met a tougher competitor in my life." Estimated at least $950 million.

Donald Worthington Reynolds

Publishing. Las Vegas. 85. Thrice divorced, 3 children. Son of door-to-door grocery peddler. "We never missed any meals, but that was about it." Worked way through U. of Missouri journalism school. Fired from first two jobs. Scraped together enough to invest in printing plant. WWII shrapnel hit in forehead: "It got rid of my sinus trouble." Helped publish wartime magazine Yank. After, acquired small dailies, built highly profitable Donrey Media Group: 53 dailies, 61 nondailies, TV station, 5 cable companies, billboards. Union-buster, cost-cutting fanatic. "Ungrateful" children uninterested; foundation to get estimated $950 million empire when Reynolds reaches that "big newsroom in the sky."

Edward Perry Bass

Oil, investments. Fort Worth. 46. Single. Second of 4 brothers *(see other Basses)*. Yale; Coast Guard; Yale architecture school; only non-M.B.A. Bass brother. Influenced by commune outside Santa Fe, funded worldwide projects including Nepal hotel: "One thing my travels have given me is an

understanding of culture and an appreciation of culture." Spending millions on experimental enclosed ecosystem Arizona: Biosphere II. Loner. Spends half year at 500,000-acre Australian cattle ranch. Over $20 million to establish Institute of Biospheric Studies at Yale. Planning $25 million downtown Fort Worth housing development. "Only 10% of his investments are nutty." Oil, real estate declines may put net worth below $1 billion.

Barbara Piasecka Johnson

Inheritance. Princeton, N.J. 54. Widowed, no children. Third wife John Seward Johnson (d. 1983), heir to Johnson & Johnson empire. Art history M.A., U. Wroclaw; to U.S. 1968. First his upstairs chambermaid, then "personal" curator, scuba diving partner. John, then 76, married "Basia," then 34, 1971, 8 days after his divorce. Couple built $30 million country estate where Basia now resides, near Princeton: "Jasna Polana." Huge battle over John's will. Offer to save renowned Gdansk shipyards 1989 fell through when Polish workers turned down $1/hour, 2,000 layoffs. Bought 18th-century Italian Badminton cabinet for record $15 million 1990. If all inherited J&J stock still held, recently worth over $940 million.

Orville Wayne Rollins

Rollins, Inc. Atlanta. 79. Married, 2 children. Grew up on father's farm, schoolteacher mother. No college, worked 72-hour week for $10 in textile mill during Depression. Made TNT during WWII. With brother John started auto dealerships; bottled water; radio ventures. Started Rollins, Inc. 1948, grew by acquisition: media, oil and gas services, security systems, Orkin Exterminating. Split company into 3 public firms 1984: Rollins, Inc., RPC Energy Services, Rollins Communications, Inc. Rollins Communications sold 1986 for $600 million; his share $290 million. Sons Gary, Randall in management. Gives millions to rural colleges and Emory U.; small fliers in fledgling firms. Estimated worth over $930 million.

Joseph Albertson

Albertson's Inc. Boise, Idaho. 85. Married, 1 daughter. Left college early in Depression for $14-a-week job: Safeway store manager in Kansas. In 1939 opened Boise grocery with $5,000 life savings, $7,500 loan from wife's aunt. Imagined different kind of grocery—with bakery and drugstore. Cofounded Skaggs-Albertson's 1969 with L.S. Skaggs *(which see)* to build dream; amicable split 1977. Now more than 500 stores in 17 states; 1990 sales, $8.2 billion. Does not run company anymore, but still goes to work every day, living by motto: "Work like hell and make money." Man who once blew fresh-baked-bread smell through the store to stimulate buyers says that same basics have applied to business for 50 years: "You need a product that people are ready and willing to buy, plus all the tender love and care you can give them." With 16% of affectionate Albertson's stock, net worth exceeds $930 million.

Laurance Spelman Rockefeller

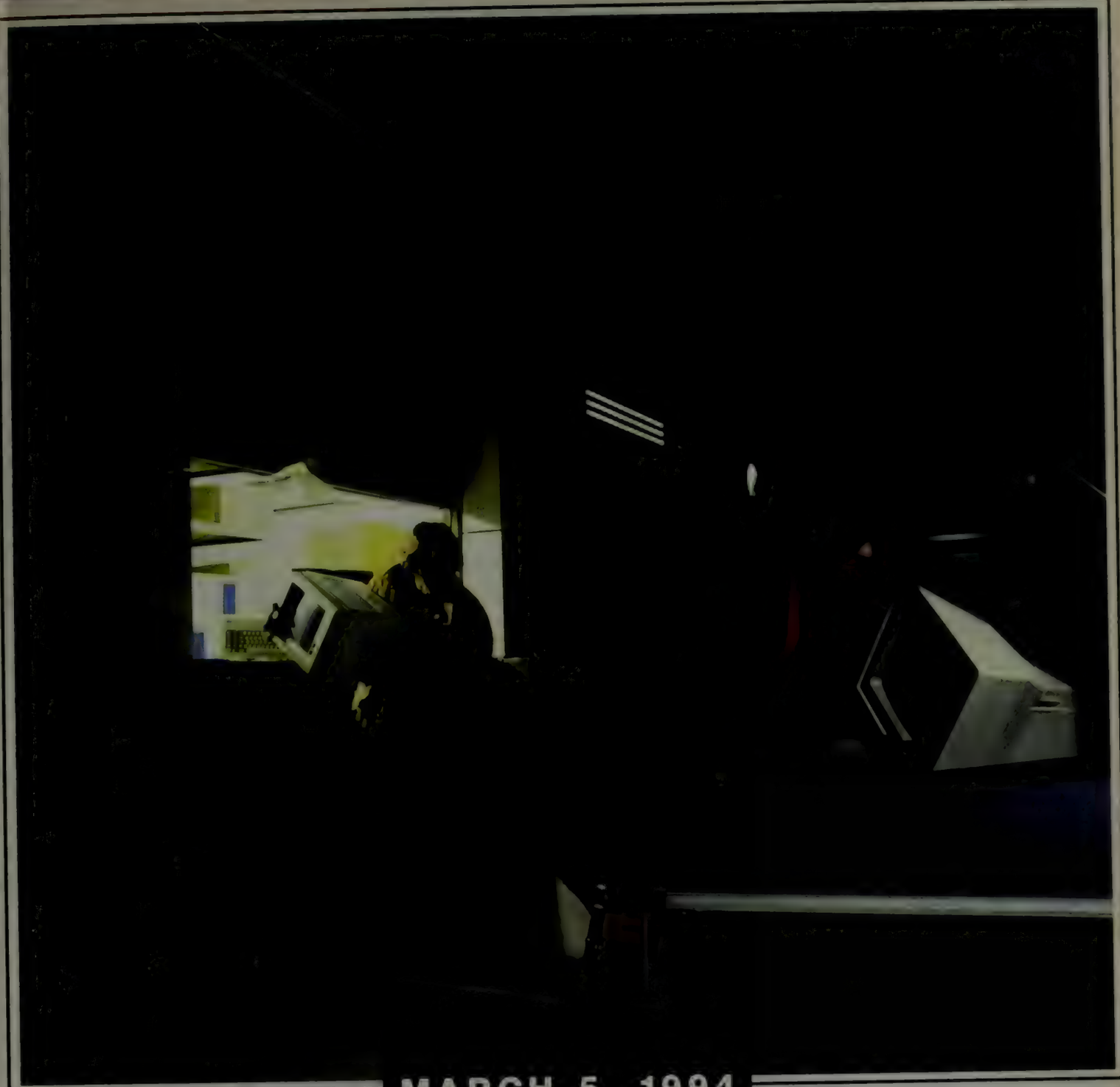
Inheritance, investments. NYC and Tarrytown, N.Y. 81. Married; 3 daughters, 1 son. Grandson of John D. Rockefeller *(see family, et al.)*. Big returns on early venture capital investments seeded from huge 1934 trust: Eastern Air Lines, McDonnell Douglas, $100 million gain Apple Computer. Also developed remote, exclusive resorts (some resorts, management arm sold 1986 to CSX; little activity since). Supported NYC Westway project with brother David. Gave $36 million to Memorial Sloan-Kettering Hospital; pledged $21 million to Princeton; supports Zendo, an offshoot of Buddhism; donated thousands of acres to national parks, reserves. His, immediate family's portion Rockefeller fortune estimated near $900 million.

Marc Rich
Pincus Green

Trading partners. Zug, Switzerland. Rich: 56. Divorced, remarried; 3 daughters. Green: 57. Married; 2 sons, 2 daughters. Rich: Belgian-born; family fled Europe to U.S. 1941. Quit NYU for Phillip Brothers mailroom. Rose with Brooklyn-born "Pinky" to star trader; helped build Phibro into then world's largest commodities firm. Pioneered spot oil market 1968. Phibro reneged on million-dollar bonus; Rich walked, launched Marc Rich & Co. with former Phibro execs 1973. (Got ultimate revenge, acquired Phibro this year.) Traded Iranian crude during hostage crisis; shipped profits to Switzerland. Pair fled tax evasion charges, to Switzerland 1983. Paid $200 million federal fines so U.S. arm Clarendon could resume business 1984; both still on wanted list. Zug-based company now world's second-largest commodity trader after Cargill *(which see)*. Built controlling position in aluminum market at bottom of market mid-1980s. With Phibro acquisition and joint venture with French company Total-Cie Française des Pétroles, company aggressively focusing on refining and trading oil; wants to expand into Eastern Europe. Pinky's heart bypass led him to retire last summer; bought out for reported $1.5 billion to be collected over 10 years. Rich, "business machine," intense, going through messy, expensive divorce settlement. Green's current net worth estimated at $800 million; Rich, $900-million-plus.

David Geffen

Recording. Malibu, Beverly Hills, Calif. 48. Single. Born Brooklyn. As usher for CBS "fired as too aggressive." Landed in legendary William Morris mailroom; managed folk acts. Founded Asylum Records 1970. Recorded Eagles, Bob Dylan, etc. Sold to Warner 1972 for "biggest number I could think of": $7 million. After cancer scare, started up Geffen Records 1980: heavy-metal bands Whitesnake, Guns N' Roses, etc.; movies *(Risky Business)*, Broadway *(Cats)*. Sold to MCA for $550 million stock. When Matsushita bought MCA, upped to $710 million in cash. Owns 25% of worldwide rights to hit *Miss Saigon*. With real estate, homes, etc., certainly worth $880 million. Claims well over $1 billion: "You guys get it wrong every year."



MARCH 5, 1994

William Randolph Hearst Jr.
Randolph Apperson Hearst
George Randolph Hearst Jr.
Phoebe Hearst Cooke
Millicent V. Baoudjakdji
David Whitmore Hearst Jr.
and families

Inheritance. Children and grandchildren William Randolph Hearst, whose father, George Hearst (prospector, land baron, U.S. senator), received failing San Francisco Examiner to settle gambling debt 1880. Only child, Harvard-expelled "Billie Buster," assumed control 1887. Built nation's largest newspaper chain, became country's most controversial media baron. Out-sensationalized former employer Pulitzer *(see family)* in great NYC newspaper wars. Pushed Spanish-American War to increase circulation: "You furnish the pictures and I'll furnish the war." Model for Citizen Kane; built $30 million temple of excess San Simeon, now owned by state of Calif. Died 1951; left control of company in foundation run by cronies. Heirs arranged buyout 1974 after long battle. Company now owned by descendants, under professional management. Hearst Corp. now estimated over $2 billion sales; 12 dailies, 14 consumer magazines (Cosmopolitan, Esquire, Harper's Bazaar, etc.), 15 trade magazines (Official Used Car Guide, etc.), 6 TV stations, 6 radio stations, books, real estate, timberland. "The more diverse we are, the better off we are going to be." No buyer found for ailing Los Angeles Herald Examiner; closed Nov. 1989. Five family branches: 1) Surviving son William Jr.: NYC. 83. Twice divorced, widowed; 2 children. Editor-in-chief Hearst Newspapers since 1955; Pulitzer-winning columnist 1956. Heads family trust. Son William Randolph Hearst III Examiner publisher. 2) Surviving son Randolph: NYC. 75. Twice divorced, remarried; 5 daughters (including Patty) by first wife. Hearst Corp. chairman. 3) Children of George Randolph Sr. (d. 1972): George Jr.: Los Angeles. 64. Widowed, divorced, remarried; 4 children. Ran Herald Examiner 1962-77, supervises real estate. Twin sister Phoebe: San Francisco. 64. Divorced, remarried; daughter. Played major role with current husband in family trust's 1974 buyback. 4) Children of David Whitmore Sr. (d. 1986): Son David Jr.: Los Angeles. 46. Single. His sister Millicent: Los Angeles. 51. Married, 3 children. 5) 4 children of son John Hearst (d. 1958): John Jr., 57, only one active (company director). Each branch has one fifth of Hearst empire, now estimated worth some $4.4 billion.

Donald Joyce Hall
Barbara Hall Marshall
Elizabeth Ann Reid

Brother and sisters. Hallmark Cards. Mission Hills, Kans. Father, Joyce Hall (d. 1982), with brothers began distributing postcards 1905, soon switched to greeting cards. Created new American industry, literally taking words out of public's mouth: prepackaged sentiment for all occasions. Heavy advertising in '20s burnished name recognition; avoided WWII rationing by convincing government that cards boosted national morale. Now Hallmark leads the industry (1990 sales $2.7 billion). More than 700 employees develop about 24,000 cards and related products a year. Company already has nearly 1,000 cards in new nonoccasion category: "This is hard to say, but I think you're a much neater person when

UPI/Bettmann

Joan Kroc with low-fat mascot and late husband, Ray

A decent interval after the MacDonald burger czar's death in 1984, the widow dumped his politics (Republican) and his hobby (baseball) and lately even some of his stock (she now owns 6%) to give to Dukakis and other Democrats, and to peace, anti-nuclear and Catholic causes.

MARCH 5, 1994

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Atlantic Mutual

IT PAYS TO BE CAREFUL.

you're not drinking." Good luck. Hallmark also has stakes in media groups. Family controls two-thirds of private company. Donald: Mission Hills, Kans. 63. Married, 3 children. Chairman's third estimated $860 million. Barbara: Kansas City, Mo. 68. Widowed, 2 children. Elizabeth: Denton, Tex. 68. Divorced, 5 children. Sisters each have one-sixth Hallmark, estimated $430 million each.

Charles F. Feeney

Duty Free Shoppers, real estate, etc. London. 60. Married, 5 children. Started in Hong Kong 1960 with Cornell School of Hotel Administration classmate, built world's largest duty-free retailer; sales near $2.5 billion. Japanese tourists main customers: Gave tour guides hefty commissions for luring tourists to stores. Left operations 1970s to invest huge cash flow through Bermuda-based General Atlantic Holding company, Hong Kong/San Francisco-based InterPacific. Resort hotels in Guam, Saipan; Tahiti shopping center; Taiwan watchmaker, etc. High-strung, fast-talking. Flies economy. Reclusive. Margins, sales down with fall in tourism, but with 40% of Duty Free Shoppers probably still worth more than $850 million.

Winthrop Paul Rockefeller

Inheritance. Morrilton, Ark. 43. Divorced, remarried; 3 children by first wife; 2 by second. Great-grandson of John D. Rockefeller, only child of "black sheep" Winthrop (d. 1973, *see Rockefeller family, et al.*), who converted rocky mountaintop area into Winrock Farms; twice Arkansas GOP governor. Win Paul offspring of John D.'s brief marriage to Barbara (Bobo) Sears; European schooling; dropped out of Oxford after first year. Runs Winrock, one of largest private cattle operations in Southeast; also president, chairman of the Billfish Foundation. Set up Law Enforcement Assistance Foundation to aid local sheriffs; in past, sometimes accompanied local police on patrols. Very philanthropic. His share of Rockefeller fortune believed to be at least $850 million.

Steven Anthony Ballmer

Microsoft Corp. Bellevue, Wash. 35. Married. Son of Swiss immigrant; grew up in Detroit. Assistant product manager Procter & Gamble. Left B-school 1980 to join Harvard classmate Bill Gates *(which see)* as first nonprogrammer at Microsoft. Four years later stated two objectives of the company: innovate state-of-the-art software and radically influence the way people live. Now senior vice president systems software group (MS-DOS, OS/2, etc.). Described as the ultimate marketing guy, showed up on video for the MS-DOS 5.0 introduction in Karl Malden garb, declaring "no PC should be without it." Elected to Harvard's Board of Overseers. His Microsoft stock recently worth $850 million.

James R. Cargill
Margaret Cargill
W. Duncan MacMillan
John Hugh MacMillan III
Marion MacMillan Pictet
Whitney MacMillan
Cargill MacMillan
Pauline MacMillan Keinath

Inheritance. Grandchildren, great-grandchildren of William W. Cargill, Long Island-born immigrant's son who moved west, set up Cargill Inc. to trade grain 1865; quickly surpassed competition. John MacMillan Sr. took over 1909, after death of father-in-law Cargill; victor in power struggle with Cargill's son. Became world's largest commercial grain trader; now also giant international grain, oilseed processor; plus salt mines, steel fabricating, Chicken McNugget maker, etc. Branched into futures brokerage services 1970s. Private as ever; 1990 sales $49 billion, net income over $300 million—books said to be conservative, large sums plowed back into company. Whitney MacMillan current CEO; proposed ESOP to increase family's stock liquidity voted down by elders, lest fifth generation squander wealth: "Our best investment is Cargill." Three branches believed to split equally voting stock controlling estimated $5-billion-plus fortune. First branch: James: Minneapolis. 67. Married, 3 children. With Cargill since 1947, retired as senior vice president 1990; still director. Runs Dinnaken Properties, builds housing for U. of Minnesota. Expert trout fisher; amateur gemologist, owns small jewelry store. Margaret: La Jolla, Calif. 71. Never married; extremely private. Second branch: Duncan: Wayzata, Minn. 61. Married, 4 children. Cargill director, vice chairman Waycrosse, Inc., family investment firm. Bought small National City Bank of Ridgedale 1989. Hugh: Hillsboro Beach, Fla. 63. Divorced twice, remarried this time to 25-year-old amateur fisherwoman; 9 children. Marion: Geneva, Switzerland. 58. Twice divorced. One daughter, another child deceased. Mostly stays abroad. Third branch: Whitney: Minneapolis. 62. Married, 2 children. Sold vegetable oil for Cargill after Yale (1951); after first nonfamily head of firm 1960-77, became chairman 1977. Continued drive beyond grain trading into chemical coatings, animal feeds, cooking oils, etc.; cochairman Institute for East-West Security Studies. Cargill: Palm Spings. 64. Divorced, remarried; 4 children. Senior vice president Cargill 1973-88, divorced, then retired, soon after remarried. With new wife (former secretary in company), abandoned Minneapolis for life of golf, art collecting, world travel, sumptuous resort home. Pauline: St. Louis. 57. Married, children. Works with handicapped children. Not active in company.

Paul Mellon

Inheritance. Upperville, Va. 84. Widowed, remarried; 2 children by first wife. Grandfather Thomas started Mellon Bank forerunners. Father Andrew: U.S. Treasury Secretary, founder National Gallery. With brother Richard B. (d. 1937), early venture capitalists in Gulf Oil, Alcoa, Koppers, etc. Paul dipped toe into family businesses, then settled into life of gentleman farmer. Still fox hunts on 4,000-acre estate. Adding to already huge art collections; famous for impressionists, English painters. One of top U.S. collections. Donated some $250 million in art to Yale,

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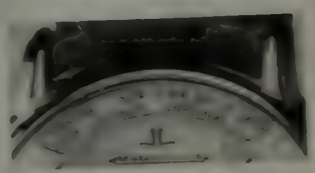

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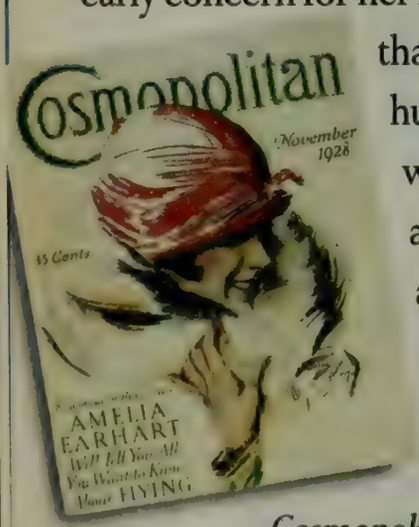
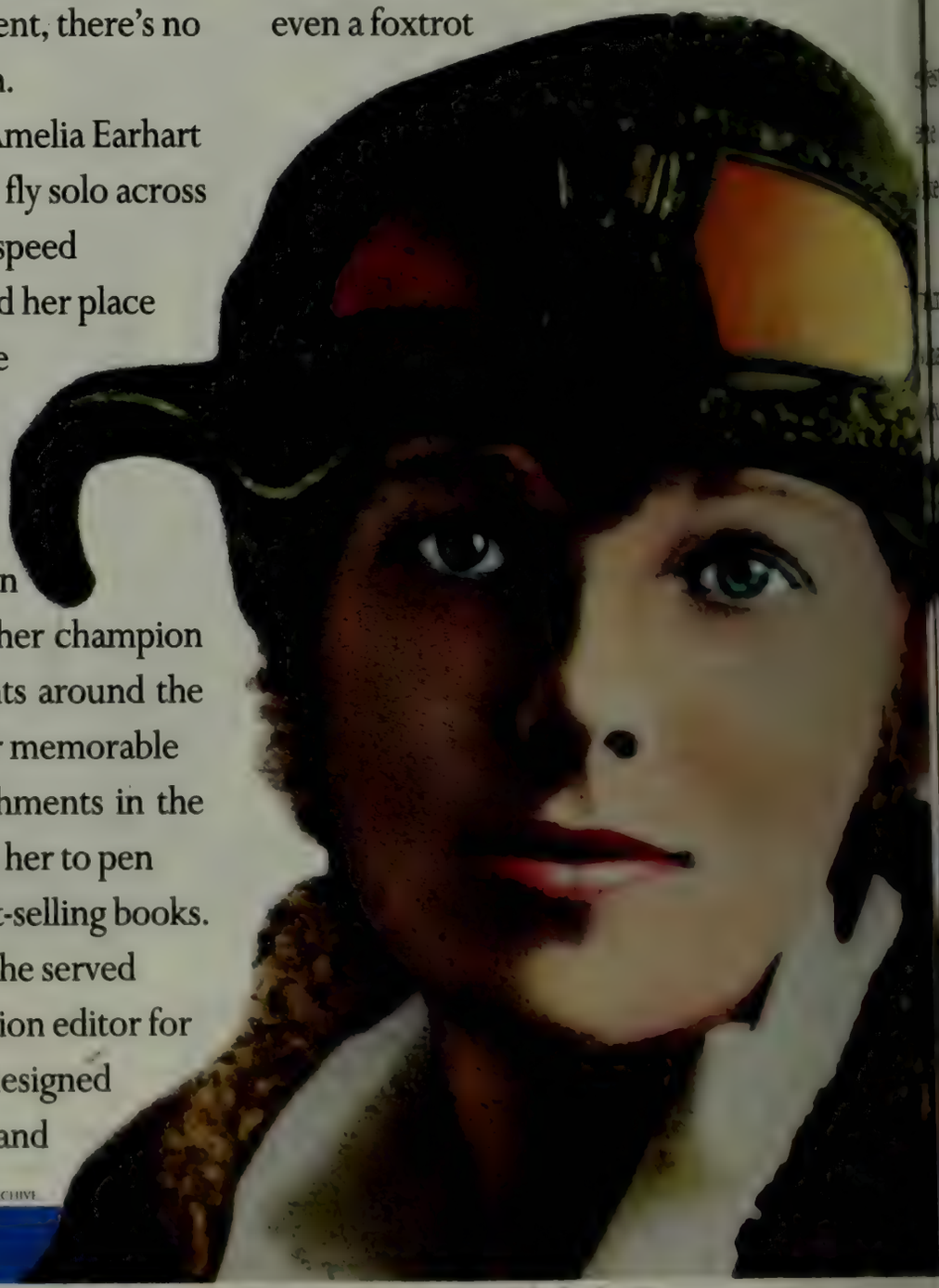
She served as aviation editor for *Cosmopolitan*. She designed and marketed a line of luggage and founded two successful airlines. An admired poet, she inspired two popular songs and even a foxtrot





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Telecommunications *Information Services* *Mobile Communications*

st woman aviator to cross r, ntrepreneur and nurse. ct rom a fashion designer.

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August Busch III

August (Gussie) Busch Jr., who died in 1989, was 76 when son August III replaced him in 1975

Gussie made and sold lots of beer, bought the St. Louis Cardinals, was a world-class horseman and involved the company with its first Busch Gardens theme park. Major diversification has been undertaken by August III. Meanwhile, challenged by Miller and Miller Lite, the 149-year-old brewery showed it knew how to win by marketing beer. Wall Street buys Bud: Old Gussie's stock, worth about $320 million when we published our first Forbes Four Hundred in 1982, has risen to over $1.3 billion now.

National Gallery and Va. Museum of Fine Arts; will bequeath remaining art which alone may be worth well over $700 million. With family trusts, art, etc. believed worth over $800 million. *(See also Scaife, May, Curriers.)*

Wallace Henry Coulter

Blood. Miami Springs, Fla. 79. Single. Dropped out of Georgia Tech while studying electrical engineering 1932. Numerous technical and service jobs while tinkering in Chicago basement. Developed the "Coulter Principle" 1949: time-saving electronic method of counting microscopic particles. Then Coulter Counter, blood cell counting instrument 1953. Founded Coulter Electronics 1958 with brother Joe. Estimated 95% of automated blood counters worldwide use Coulter or clones. Recipient John Scott Award 1960 (past winners: Marie Curie, Jonas Salk), adjunct professor U. of Miami medical school. Company valuable too: conservatively estimated at $800 million.

Carl Henry Lindner Jr. and family

Insurance, banking. Cincinnati. 72. Married, 3 sons in business. Left high school to deliver milk for family-owned dairy business during Depression. Opened ice cream store, built to 220-store United Dairy Farmers chain. Formed American Financial Corp. with 1 small S&L 1959; added insurance 1971. Had a golden touch with investments. AFC's portfolio made over 60 times its original investment from 1961 until it went private 1980 for $340 million. Last big deal, acquiring Taft Broadcasting to build Great American Communications. Large portion AFC transferred to sons, other family; Carl Jr. still retains estimated $350 million directly. Total, believed still run by Dad, estimated at $800 million.

Dorrance Hill Hamilton
Hope Hill van Beuren
Charlotte Colket Weber
Tristram C. Colket Jr.
Diana Strawbridge Norris
George Strawbridge Jr.

Campbell Soup. Six of 9 grandchildren of John Dorrance Sr., whose canned soup became part of the "American way of life." Left third-largest estate in U.S. 1930, over 50%

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..ent to John Jr. *(see John T. Dorrance III)*; one-eighth to each of 4 daughters, all deceased; their children, grandchildren inherited. After John Jr. died 1989, family divided on whether to sell Campbell. After some time, Diana backed off, leaving Dorrance and Hope as only sale advocates (both sold off 1 million shares in past year). Dorrance (Dodo): Wayne, Pa. 63. Married, 3 children, 7 grandchildren. Oldest of nine cousins, only one born in John Sr.'s lifetime. Always seen wearing a hat. Favored selling her 6.7% for her children's sake: "I had to look after my family and not the family as a whole." Dodo had to share inheritance only with sister; her stock, other assets recently estimated $790 million. Her sister Hope (Happy): NYC, Newport, R.I. 57. Married, 3 children. Husband John an investor. Son Archbold business director ready-to-serve soup at Campbell. Stock, other assets worth $710 million. Diana: Palm Beach, Fla. 52. Divorced, 2 sons; remarried, 1 daughter; bitter divorce now pending. Horse farm "Runnymede," Coatsville, Pa., ski chalet Vail. Her stock, assets worth $320 million. Her brother George: Chester County, Pa. 54. Married, 2 children; divorced; remarried, 1 more child. U. of Pennsylvania grad, owns Augustin Stables in Chester County, Pa., piece of Buffalo (hockey) Sabres. Unlike Diana, George always opposed sale; his 2.1% stock, other holdings, worth $275 million. Charlotte and Tristram neutral on sale issue. Charlotte: Ocala, Fla., NYC. 48. Married, 4 children. Studied at Sorbonne; donated $20 million Chinese art to Metropolitan Museum; rest of collection worth over $100 million. Fortune estimated well over $700 million. Brother Tristram: Paoli, Pa. 53. Married, 3 children. After Trinity College, attempted entrepreneurship with mixed results. Founded Altair Airlines 1966, filed bankruptcy 1982. Most recent endeavor: reviving closed Cressona Aluminum Co. Avid sailor's shares weigh in at $285 million.

Betsey Cushing Roosevelt Whitney

Inheritance. Manhasset, N.Y. 83. Divorced, widowed; 2 children by first husband (James Roosevelt, eldest son of Franklin Delano Roosevelt). Daughter of famed brain surgeon Harvey Cushing; frequent F.D.R. White House hostess 1930s; favorite daughter-in-law. Divorced 1940; married John Hay (Jock) Whitney 1942, heir to huge 19th-century fortune (oil, tobacco, land, rails). Jock died 1982. Stunning impressionist collection first shown publicly in National Gallery: Famous "key pictures" included Renoir's "Le Moulin de la Galette," sold for $78 million; Degas, van Gogh, Monet, etc. Philanthropist, lives on 500-acre Long Island, N.Y. estate. Believed worth at least $775 million.

Donald John Tyson
Barbara Tyson

Tyson Foods. Brother, sister-in-law. Fifth-generation farming family founded Tyson Feed & Hatchery 1935. Tyson Foods, Inc. went public 1963. Family tragedies: Don took over after father, stepmother died in 1967 car crash; Barbara inherited husband Randal's shares when he accidentally choked to death 1986. Acquisitions ignited growth; built only 2 of 47 plants. By 1985 sales topped $1 billion. With takeover of Holly Farms ($1.5 billion) 1989, became nation's largest poultry supplier at the time. Company 1990 sales, $3.8 billion; huge supplier of restaurant chains; moved into pork market 1970s, beef 1989. Chairman Don's preference: employees to keep suits in closet, wear khaki farm clothes to work. Don: Springdale, Ark. 61. Married, 3 children. Favorite hobby: deep-sea fishing for marlin. Barbara: Fayetteville, Ark. 42. Widowed, no children. Together, Tysons own 99% Class B common stock. Don's shares worth $765 million, Barbara's $550 million.

Robert D. Haas ★
Rhoda H. Goldman ★
Peter E. Haas Sr.
Peter E. Haas Jr. ★
Josephine B. Haas ★
and families

San Francisco. Bavarian immigrant Levi Strauss sold pants made of tent canvas to Calif. '49ers; patented denim version 1873. Walter Haas Sr. (d. 1979) married Strauss' grandniece, ran Levi Strauss & Co. 1928-55. Son Walter Jr., 75, took company public 1971. Bought Oakland (baseball) A's 1980. Retired 1981, still active director, honorary chairman. Son Robert: 49. Married, 1 daughter. Took company private 1985 in $1.6 billion leveraged buyout; now chairman, chief executive officer of world's largest apparel firm (1990 revenues $4.2 billion). Debt paydown, rising sales and profits vastly increasing company's net worth. Philanthropist: "Even if the private sector helps create a thousand points of light across the land, it will be of no avail if there's darkness in the White House"; fortune, with family, estimated $280 million. Rhoda Goldman: 67, Walter Jr.'s sister, company director; with husband Richard established Goldman Environmental Prize, world's largest ($360,000) annual save-the-environment award; estimated $365 million with family. Peter Haas Sr.: 73. Married, 3 children. Walter Jr.'s brother, board member, estimated at least $760 million. Peter Sr.'s ex-wife Josephine Haas, in her late 60s, worth estimated $440 million. Their son Peter Jr., 44, company director, estimated $300 million. "Wealth is a responsibility and the sharing of it is a way of life."

Doris Duke

Inheritance. Somerville, N.J.; Newport, R.I.; Honolulu, et al. 78. Twice divorced; adopted daughter. Only child of James (Buck) Duke, who formed American Tobacco Co., Duke Power Co. Buck died 1925, left 13-year-old "Duchess" world's wealthiest girl. Dogged by reporters through unsuccessful marriages. Built $30 million Honolulu estate ("Shangrila"), also New Jersey estate; one of world's largest private art collections. Plays jazz piano, works for historical preservation. "One of my principal endeavors is . . . a more humane treatment of the animal world." Posted $5 million bail for friend Imelda Marcos 1988. Adopted daughter Chandi Heffner reportedly disinherited over romance from possibly $750 million fortune.

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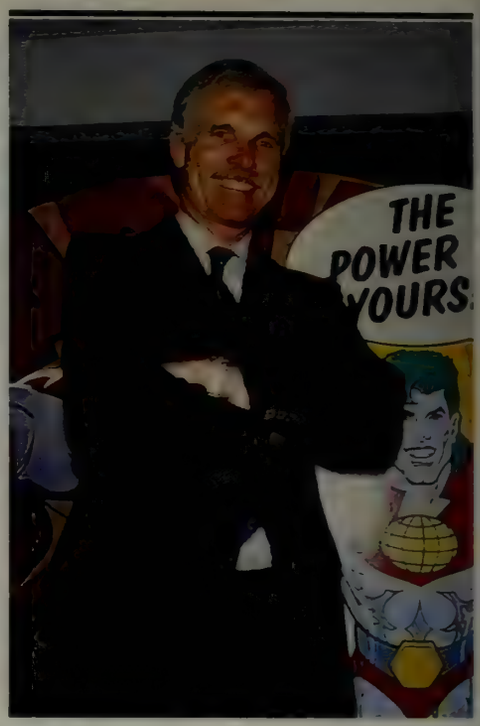
Ted Turner's come a long way from the days of gaffes and jackets like this (left). Now natty as a network news anchor, he flogs "Captain Planet," an environmentalist cartoon hero **But he was driven to major cable system customers, including Tele-Communications, Inc. and Time Inc., when he faced a cash squeeze in 1987. Turner still has voting control of his empire—for now. Time Warner recently put its number two man, Nick Nicholas, in its seat on Turner's board. Nicholas may be after more of what Turner has created from such coups as MGM's film library in a complex and costly deal from Kirk Kerkorian and CNN's 24-hour Gulf coverage, which even got piped into Saddam Hussein's headquarters. Turner may find more in common with TCI's John Malone than Time Warner's corpocracy.**



Gerald Bermanzohn/Outline

Carl Ray Pohlad

Banking, investments. Minneapolis. 76. Married, 3 sons. Father RR brakeman, mother laundress West Des Moines, Iowa; football scholarship Gonzaga U., dropped out to sell repossessed cars full time. Decorated WWII. Took over Minneapolis bank holding company 1955 after brother-in-law CEO died, acquired northern Midwest banks (assets now $4.5 billion). Took over bus company MEI; restructured as Pepsi bottler early 1970s, smartly diversified in candy, snack food distribution. Sold bottling 1986, food 1990: MEI now roughly half cash. Owner Minn. Twins ("I consider baseball a family culture"), part owner Vikings; one of founders Minneapolis Girls and Boys club; carries lucky buckeye nut. Estimated $740 million.

Donald George Fisher
Doris F. Fisher
Robert J. Fisher ★
William F. Fisher ★
John J. Fisher ★

The Gap. San Francisco. Husband and wife, their 3 sons. Donald 63; Doris, 60. Founded first store 1969; name refers to 1960s generational impasse. Don developed new customer conveniences to suit himself: e.g., displaying clothes by size, not style or brand. Sales boomed 1970s: jeans' golden age. After 1983 stock collapsed: competition from big retail chains. Gap diversified, remodeled stores, acquired Banana Republic same year. Began GapKids 1987. Now more than 1,160 Gap, GapKids, Banana Republic stores. Empire growing; Don says Gap plans to "open 150 stores a year, as well as expanding another 50." Sales $1.9 billion 1990. Sons: Robert, 36, married, 2 children; William, 34, married, 1 son; John, 30, married, 1 daughter. All attended Philips Exeter Academy, Princeton; Stanford M.B.A.s. Robert, president Banana Republic, joined company 1985. Donald and Doris *each* have stock recently worth $735 million. Robert's shares worth $295 million. William, a Gap employee, and John, $280 million each.

Ewing Marion Kauffman

Pharmaceuticals. Mission Hills, Kans. 75. Married, 3 children. Missouri farm boy; Navy WWII; pharmaceutical salesman. Quit after his sales commissions exceeded company president's salary, began peddling ground-up oyster shells as calcium supplement. Founded Marion Laboratories 1950; made fortune reformulating, marketing other firms' new drug ideas. Merger with Dow Chemical 1989 produced public entity Marion Merrell Dow. Recently bought other half Kansas City (baseball) Royals, loves the game. Gives millions to further ghetto kids' education, break poverty psychology. "I'm having fun spending my own money while I'm alive, rather than letting someone else spend it." His stock, etc. worth $725 million.

William Morse Davidson

Guardian Industries Corp. Bloomfield Hills, Mich. 68. Thrice divorced, 2 children. Dabbled as lawyer but found talent rescuing small businesses. Resuscitated uncle's failing windshield business, took over, brought public 1968, private in $500 million LBO 1985. Now number 4 glassmaker: 15% U.S. flat glass market, 8% automotive market; sales near $700 million. Appealing 1989 patent-infringement suit: Company owes $38 million in interest, royalty and technology payments. Dubbed "the raging bull of glassmaking." Owns 57% of the Detroit (basketball) Pistons, 80% of Detroit sports complex, the Palace of Auburn Hills. Net worth estimated at $710 million.

Michael Robert Milken

Junk bonds. Federal Correctional Institute, Dublin, Calif. 45. Married, 3 children. CPA's son; Berkeley, Wharton M.B.A. To Drexel 1969; conceived market for high-risk, high-

Photographed in Nantucket, Massachusetts

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held, "junk" bonds; in 1980s built to $200 billion industry. Helped fund Perelman, Linder, Peltz *(see all)*, etc. Salary, bonus $550 million for 1987 alone. Squealed on by Ivan Boesky for numerous securities violations. Pleaded guilty to 6 felony counts (conspiracy, fraud, etc.). Currently doing 10 years Dublin, Calif.; paid $600 million in fines. Government dropped charges against brother Lowell *(which see)*. Mike at first thought involved in some 60 Drexel partnerships, now estimated 600-plus. Making about 30 cents an hour at prison labor, to add to net worth estimated over $700 million.

Robert Henry Dedman Sr.

Country clubs. Dallas. 65. Married; 2 children. Rison, Ark. native, raised poor but says he earned 3 degrees (economics, engineering, law) in 4 years, while also selling insurance and real estate and serving as commissioned Navy officer. Attorney for H.L. Hunt. Opened first club—Brookhaven Country Club—as sideline, 1957. Proved profitable; added more clubs. Started developing city clubs 1965. Now Club Corp. International, over 400,000 members scattered over 250 clubs; revenues over $1 billion. Acquisition-hungry, bought some 40 clubs 1990. Plans expansion in Europe and Asia. Is staggering Soviet Union ready for him? With 92% stake, worth around $700 million.

Frederick W. (Ted) Field Marshall Field V

Half-brothers. Inheritance, media. Original Marshall Field started as Chicago store clerk; saved money, went into dry goods 1865. Built Marshall Field & Co. into world's largest department store, Chicago landmark; left all in trust to 2 grandsons. Grandson Marshall III sold some of store 1941; started Chicago Sun, added Times 1947. Field Enterprises inherited by Marshall IV (d. 1965, age 49). Marshall V (Harvard) Sun Times and Chicago Daily News publisher age 28; later ran TV, cable. Conflict with incompatible half-brother Ted ended in liquidation 1984. Marshall: Lake Forest, Ill. 50. Divorced, remarried; 4 children. Bought Ted's share of real estate firm Cabot, Cabot & Forbes; later bought Pioneer Press (suburban newspapers), sold at profit to Sun Times 1989. Also sold Funk & Wagnalls, other media units in March. Still owns Muzak, Asset Management. Ted: Beverly Hills. 39. Divorced twice, remarried; 5 daughters. Raised in Chicago and Alaska by mother (editor Christian Science Monitor). Played with race cars; now produces movies via Interscope *(Outrageous Fortune, Three Men and a Baby, Bill and Ted's Excellent Adventure)*. Easily gets outside capital for investments. (Bought Panavision for $20 million 1985, realized $90 million 1987; capital for Interscope from Disney and Nomura.) Also trades commodities, develops real estate. Marshall, around $450 million; Ted, estimated $700 million.

James LeVoy Sorenson

Medical devices. Salt Lake City. 70. Married, 8 children. Considered medical school; instead, Mormon missionary work 1942. Then salesman for Upjohn. Staked uranium claims, big profits 1950s: "Look at your environment and see how you can get control of it." With another look saw unnecessary hospital deaths, developed innovative medical devices (disposable catheters, etc.): "I am always trying to fulfill a market need somewhere." Sorenson Research turned out a series of patents; sold to Abbott Labs 1980. "Entrepreneurs are just glorified gamblers, it's just a matter of where you are placing your bets." If Abbott shares still held, lately would be worth $700 million.

James Martin Moran

Toyotas. Hillsboro Beach, Fla. 73. Widowed, remarried; 3 children, all in business. Pumped gas full time for 25 cents/hour, age 14. Saved, bought own gas station, used car dealership, then Hudson franchise. Switched to Ford. Got into TV advertising early. Became his own spokesman—"the Courtesy Man," local Chicago idol outdrawing Ed Sullivan. Cancer diagnosis 1966, went to Florida. Remission. Acquired state's Toyota distributorship 1968. Built it up to world's largest independent: some 150,000 cars a year. Currently facing some 12 lawsuits from former dealers claiming fraud, extortion, racketeering. Has been prosecuted in past for tax evasion. Net worth believed at least $700 million.

Leon Hess

Amerada Hess. NYC and Deal, N.J. 77. Married, 3 children. Father came to U.S. from Lithuania 1904. In 1933 Leon bailed out father's ailing coal and gas retail business by delivering fuel to homes in his 1929 Dodge truck. Rebuilt truck fleet with heaters to deliver thick residual oil in liquid form. Moved into drilling, refining, other retailing. Went public 1962 via merger, became Hess Oil & Co., then teamed with Amerada Corp. 1969 to expand fuel exploration ventures. Testified before Senate on oil prices in relation to Persian Gulf crisis: "There is not a supply problem with crude oil." Son John, vice president, next in line for company top spot. Leon also sole owner of football's New York Jets. Worth at least $690 million.

Armas Clifford (Mike) Markkula Jr.

Apple Computer. Woodside, Calif. 49. Married, 2 children. M.S., USC, in electrical engineering. Worked at Hughes Aircraft, Fairchild Semiconductor, Intel. Backed Apple startup by Steven Jobs *(which see)*, Stephen Wozniak. Chairman 1977, CEO 1981; replaced by John Sculley of PepsiCo 1983; currently vice chairman. Founded Echelon 1985, designs low-cost control and communications computer networks. Also in charter airplane services: ACM Aviation (chairman), San Jose Jet Center (director). "Mike," other Apple officer hit with "stock fraud" judgment for alleged 1983 misstatements about new disk drive that could be up to $100 million; Apple to appeal. His stock, other assets over $675 million, prejudgment.

Ralph Lauren

Fashion design. NYC. 52. Married, 3 children. Born in Bronx, son of Russian immigrant. High school ambition: be millionaire. Some college;

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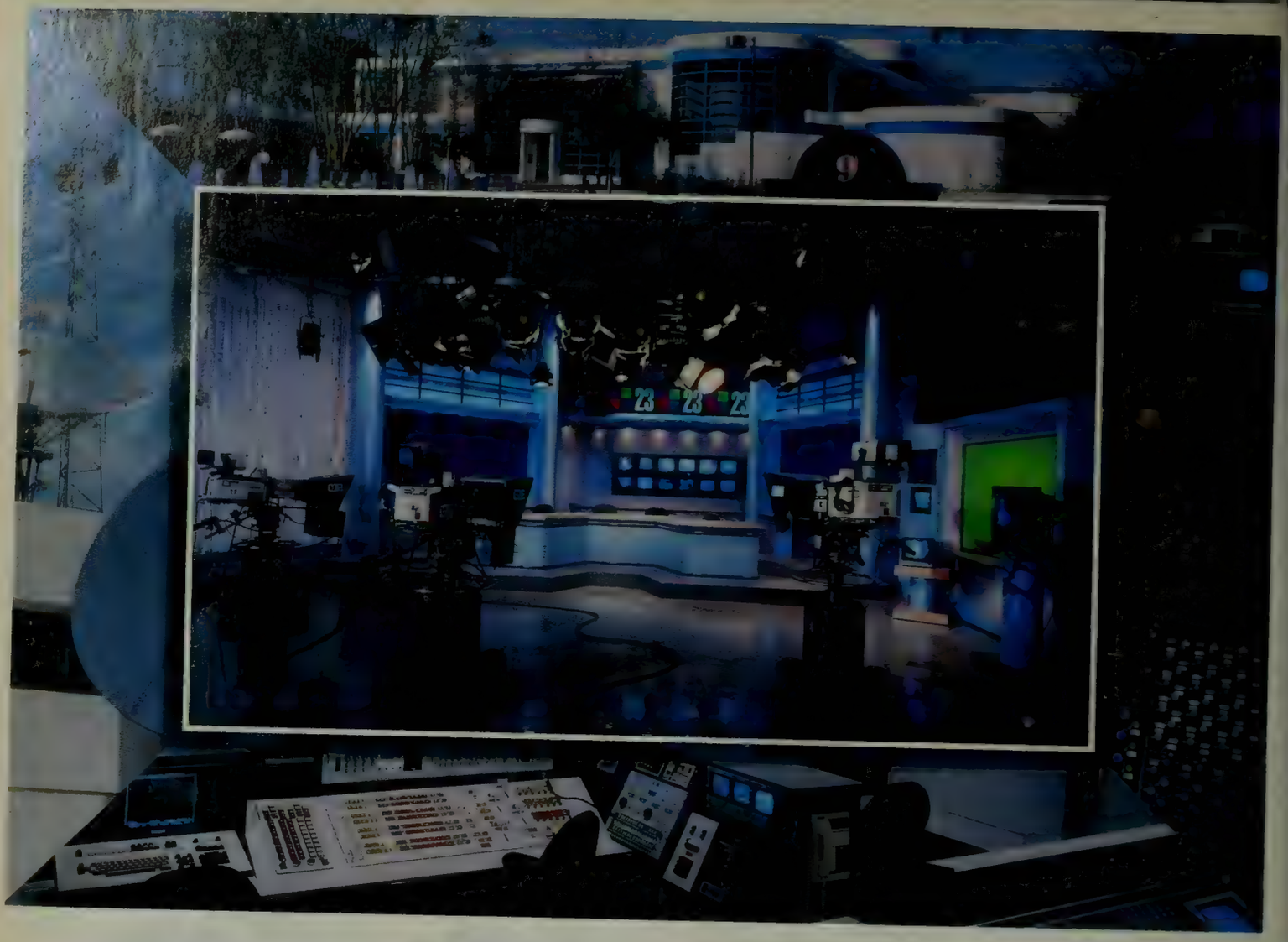

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clerked at Alexander's, Brooks Brothers. As fashion designer, sparked wide necktie fad late 1960s. Started Polo, Inc. 1967 with $50,000; near bankruptcy 1972. Rescued by trend to preppie clothes. Led U.S. designers into retailing on large scale. Grossed over $3 billion 1991 (much of it licensed goods). With 90% Polo, etc., believed worth over $675 million. "I remember going out West, every collar was big, and the shirts were flowered, and they were polyester. I said, where are the shirts that Randolph Scott wore? . . . I don't design sleeves and jackets. I design a world."

Carl Celian Icahn

Finance. Bedford, N.Y. 55. Married, 2 children. Grew up middle class in NYC's Queens; mother taught school, lawyer father (frustrated opera singer) read Schopenhauer to Carl. Princeton scholarship, studied philosophy. Stuck out medical school 2 years. After Army, finally found Wall St.; had to sell convertible after 1962 market crash. Borrowed to buy NYSE seat 1968; bought into firms, forced managers to improve, buy him out or spin off. First takeover bid Tappan 1977. Bought ACF 1984, TWA 1988; both housed huge holdings USX, Texaco. Major Texaco profit 1989. But TWA: labor woe, big losses, bankruptcy threats have cut into equity. Sold USX stake last May for $1.02 billion but billionaire no longer: maybe $660 million.

Andrew Jerrold Perenchio

TV, films. Bel Air, Calif. 60. Twice divorced, 3 children. Son of Fresno vintner, catered frat parties to pay for UCLA. Joined MCA 1958; founded talent agency 1963: landed Liz Taylor, Marlon Brando, Jane Fonda; promoted Ali-Frazier fight, etc.; also LA pay TV. Joined Norman Lear 1974 to create *All in the Family, The Jeffersons,* Embassy Pictures. All sold 1985 to Coca-Cola for $485 million, bought Loews theaters for $160 million. Sold 1986 for reported $300 million. With Charles Dolan, Robert Bass, bid for Time 1989; lost to Warner. Co-owns, with Zanucks, producer of *Driving Miss Daisy.* Paid $13.6 million for Kirkeby estate, home of *Beverly Hill-*

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billies, also $9 million for adjoining land. Estimated worth $655 million.

William Michael Cafaro and family

Shopping malls. Hubbard, Ohio. 78. Married, 3 children. Immigrants' son, built first strip center 1954 with brother John (d. 1987). Part of development movement that validated suburban sprawl by constantly building shopping centers, later enclosed malls across country: "Every time we open a mall, I get the same thrill." Currently 7th-largest U.S. mall manager, concentrates on middle market; rarely sells property, uses little debt. Today, "I wouldn't recommend entering this field" without experience, plenty of equity dollars. Son Tony in business. J.J. still paying for crash of his sports car company. Bill, family trusts, now worth about $655 million. "If you make a friend today, you can always make a deal tomorrow."

John D. Hollingsworth

Textile machinery, real estate. Greenville, S.C. 73. Divorced, 1 daughter. From 1942 John and wife Ella (d. 1984) promised service truck within 48 hours of textile mill call, built up John D. Hollingsworth on Wheels. Raised mill productivity tenfold with better yarn making wire, carding machines; ruthlessly protected virtual monopoly on wire—now down to estimated 70% share. Invested profits in land; over $250 million worth near Greenville. Added related machinery from mid-1970s. Has sent truck with bar to trade shows to lure salesmen for drinks, deals. Severe family, IRS problems 1960s; extremely secretive. Once diagnosed paranoid schizophrenic. Has never seen 5 of 6 grandchildren. Estimated fortune $650 million.

Helen Kinney Copley

Publishing. La Jolla, Calif. 68. Divorced, widowed; 1 son. Hunter College dropout answered ad, became secretary to James S. Copley (adopted son of newspaper magnate Col. Ira Copley) 1953. From secretary to confidante: "I'll never know what he saw in me; I was so pathetically shy." Married 1965; gracious hostess until James' death 1973. Then, took over, sold unprofitable papers, slashed payroll, beefed up editorial. Expanded to 12 dailies (770,000 subs.), 47 weeklies (nearly 1 million subs.), percentage of 3 cable TV systems; flagship still San Diego Union/Tribune. Son David, 39, probable successor. James' 2 children from first marriage trust beneficiaries. Copley Press now worth at least $640 million.

Paul Fireman

Reebok. Newton, Mass. 47. Married, 3 children. Family had Massachusetts sporting goods business. Came upon British track shoes at trade show 1979. Set up Reebok USA to distribute, bought out supplier 1984. His innovation: fashion athletic shoes for aerobics market—soft leather, hot colors. Unseated Nike as top U.S. sneaker firm 1986, enraged Nike founder Phil Knight *(which see)*. Fireman back in second place 2 years later: "There is not the overriding motivation which says we have got to be number one in sales." Nevertheless Reebok, propelled by very successful Pump line, pursuing: 1990 sales, $2.1 billion; Nike's fiscal 1991, $3.3 billion. Shares (some held with wife), stock sales tally $625 million.

Wayne Kodey/Review Journal/Sipa

Kirk Kerkorian
Should you buy a used company from this man? Almost anytime in the past 40 years, this former Fresno farmboy was buying or selling a company. He spent the past decade adding United Artists to MGM, then selling some or all of MGM, then buying it back, recently unloading it again, maybe for keeps. Maybe. Worth only $133 million in our first, 1982 listing, he has topped $1 billion.

Estée Lauder
Leonard Alan Lauder
Ronald Steven Lauder

Mother, sons. Cosmetics. NYC and the Hamptons. Estée: ageless. Widowed. "I never thought I'd make it big. If I felt I had made it, I would be somewhere nice, like St. Moritz, skiing." Josephine Esther Mentzer born to Czech-Hungarian immigrant parents in Queens. Sold skin creams for chemist uncle, later attached her name to products, haunted department store buyers until she landed orders. Summer resort romance led to marriage to Joseph Lauder (d. 1983). He became administrator and escort; she mingled with rich and beautiful, developed, promoted products. Uncanny sixth sense for fragrances, consumer trends built one of world's largest cosmetics companies: Estée, Clinique, Aramis, and now Origins (natural products, recyclable containers for younger sincere crowd). "I never look at the competition—I don't even know who the competition is: Every day they

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have a different president." Estée, founder, longtime soul of company, no longer in day-to-day operations. Leonard: 58. Married, 2 sons. Current chief executive officer, credited with much of company's huge growth. Wife Evelyn vice president; son William, vice president and general manager of Origins, seen as heir apparent. Ronald: 47. Married, 2 daughters. Left managment 1983 for public service: deputy assistant defense secretary (NATO), ambassador to Austria. Ran for mayor of New York City; trounced in primary, spent estimated $350 per vote. Back to Estée; set up investment firm CEDC to fund East Europe ventures; lavished free lipsticks on West Berlin, opened stylish perfumery in Moscow 1989. Three share family firm estimated worth some $1.8 billion.

William Alfred Cook

Medical supplies. Bloomington, Ind. 60. Married, 1 son. Illinois boy, drove cab, Northwestern grad 1953. Worked 5 years in Chicago as hospital supply salesman. Left to form own hypodermic needle company. Hated big city; sold company, packed family into Corvair, moved to Bloomington, 1963. With $1,500, bought soldering iron, blowtorch, plastic tubing, made then-new cardiovascular catheters. Today Cook Group one of largest-volume U.S. catheter producers; also makes pacemakers, syringes, urological supplies. Employee incentives. Also insurance business. Extensive Bloomington real estate. Net worth estimated at $600 million.

Alan C. Ashton
Bruce W. Bastian

Partners. WordPerfect. Orem, Utah. Ashton: 49. Married, 11 children. Bastian: 43. Married, 4 children. Brigham Young U. computer professor Ashton teamed with grad student, band director Bastian to write computer program diagramming BYU band formations; next, word processing program for Data General machines. Program commercially available 1980, free of venture capital. In 1982 IBM PC version appeared with new name: WordPerfect. Very popular: easy to use, added new features not available from competitors. Sales 1990: $452 million—up 61% in year. Little or no debt. Now nearly 3,000 employees. Each owns 49.9% WordPerfect, at current multiples worth estimated $600 million each.

Frank Batten Sr.

Media. Virginia Beach, Va. 64. Married, 3 children. Nephew of Samuel Slover, who arrived Virginia 1900. Samuel raised nephew Frank: Harvard M.B.A.; publisher 1954. Inherited. Aggressively built Landmark Communications from 1 paper (flagship now Virginian-Pilot/Ledger-Star). First cable franchise 1964; now over 625,000 subscribers; also 9 dailies, 32 weekly shoppers, 4 triweeklies, etc.—total circulation over 550,000. Plus TV station, 2 radio stations, Weather Channel (now very profitable). His 35% Landmark now estimated at least $600 million. "I thought you guys would stop publishing that list."

Fred A. Lennon

Valves, pipe fittings. 85. Chagrin Falls, Ohio. Married, 2 children. Started with customer service at IBM; salesman for office machine company, then Weldon Tool; both Cleveland. Met Cullen Crawford, designer of innovative high-pressure pipe fitting "Swagelok." Became partners. Started Crawford Fitting Co. 1947. Lennon was marketer, Crawford production. "Bought out Crawford for next to nothing." Expanded in mid-1950s, added companies: Cajon Co., Nupro, etc. Recognized as premier manufacturer of high-pressure fittings. Much government contracting, sometimes sole source. Secretive to an extreme. Depending on margins, his company could be worth as little as $600 million.

Jack Rudin
Lewis Rudin

Brothers. Real estate. NYC. Jack: 67. Widowed, 3 children. Lew: 64. Twice divorced, 2 children. Father and uncles founded Rudin Management 1924 to manage Bronx, Manhattan tenements. Sons joined firm 1946. Family philosophy: never sell (still own family's first building, bought 1902). Today 3,300 apartments, about 7 million square feet prime Manhattan office space, most built pre-1972. Believed relatively little debt, very profitable. Brothers big NYC boosters, led tax prepayment drive to keep city afloat late 1970s: "We had to do something. We couldn't very well pick up our buildings and move them across the George Washington Bridge." Lew founded Association for a Better New York; Jack heads NYC Marathon committee. Brothers' fortune estimate down $300 million from 1990, to $1.2 billion or more.

A. Alfred Taubman

Shopping centers. Bloomfield Hills, Mich. 66. Divorced, remarried (to former Miss Israel); 3 children. Son of Detroit custom home builder; U. of Michigan dropout. Got $5,000 loan 1950; developed shopping center 1953, built more. Large regional malls 1960s; perfectionist with stringent leases, store design demands: "If they don't like it, they don't have to rent with us." Now 22 malls. Made $150 million Irvine Ranch buyout 1977-83; white knight Sotheby's 1983. Bought department stores 1984, 1986. Owns 800 Detroit apts.; etc. Anchor stores' share in malls appears greater than formerly thought; in real estate recession, estimate revised to over $600 million.

George Phydias Mitchell

Oil, real estate. Houston. 72. Married, 10 children. B.S. Texas A&M. Son of a Greek goatherd and railroad worker; family name, Paraskivopoulis, changed by railroad timekeeper who couldn't pronounce it. George became geologist, with brother Johnny made it big postwar in oil syndicate; eventually bought out most partners, renamed Mitchell Energy & Development when company went public 1972. Today U.S.' 13th-biggest producer natural gas liquids. Also land development: real estate operating revenues up 12% fiscal 1991, to $98.8 million. "When real estate turns around, we'll have 30 years of an

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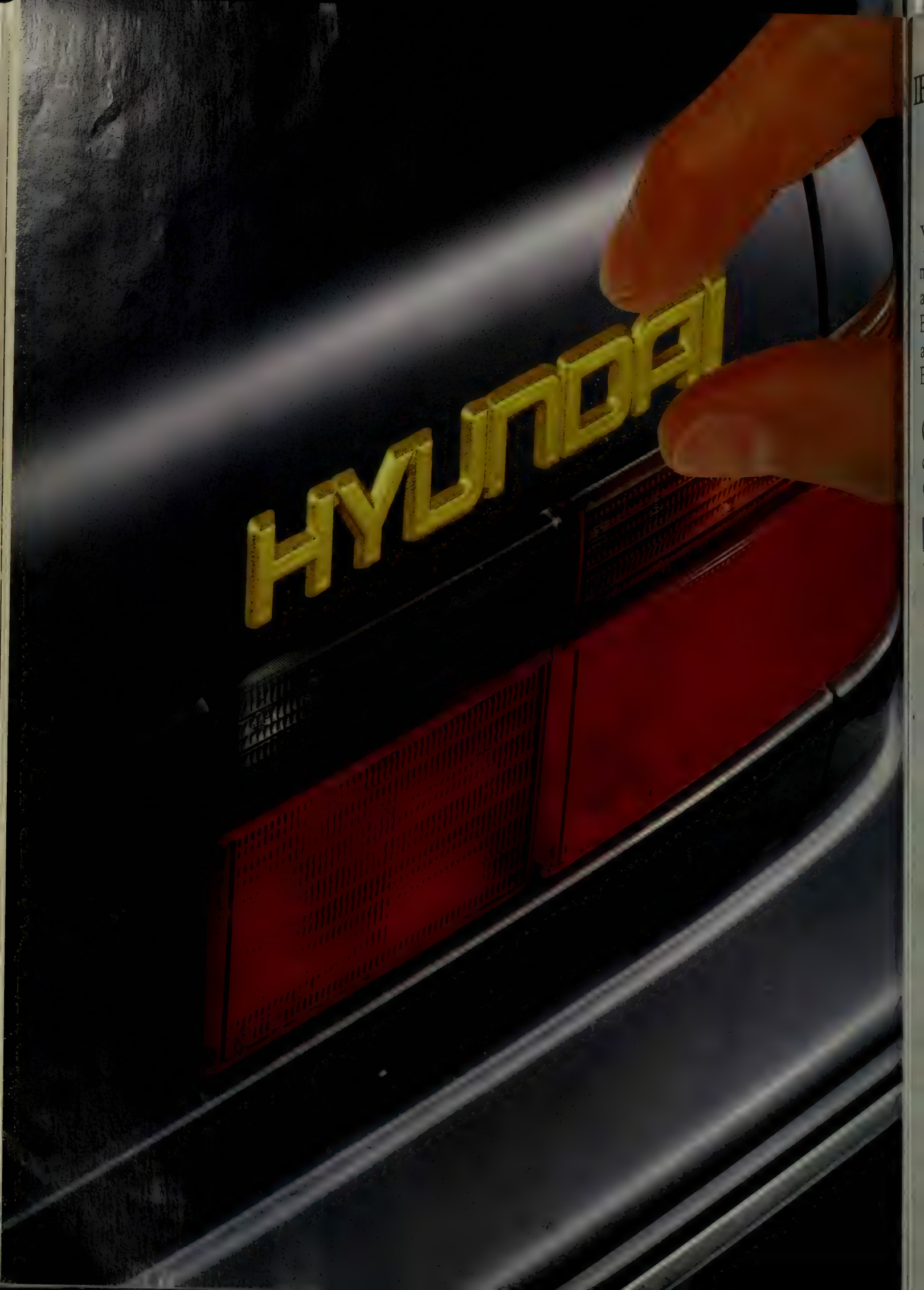
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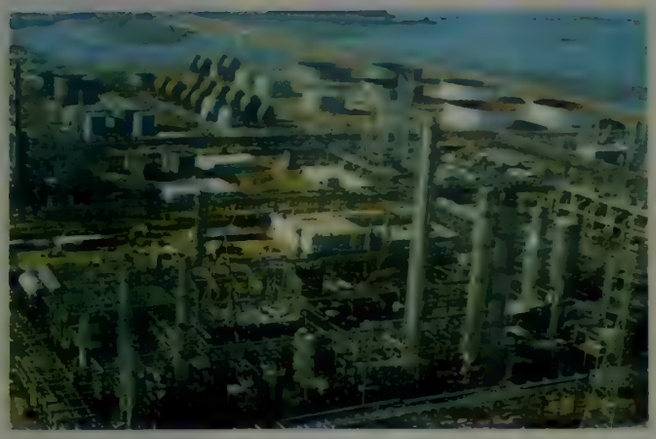

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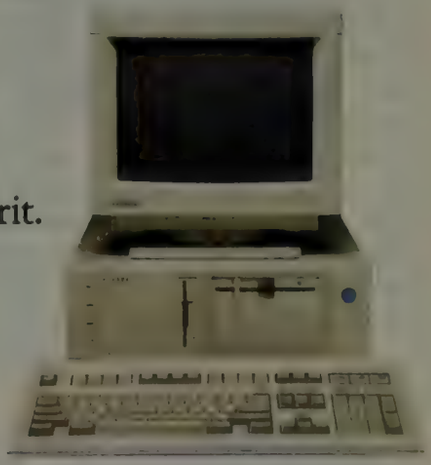

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income stream." Stock market more cautious, but Mitchell's 63% Mitchell Energy, other assets worth over $600 million.

Nelson Peltz
Peter May

LBOs. Peltz: Palm Beach, Fla. Divorced, remarried; 6 children. 49. May: NYC; Bridgeport, Conn.; Palm Beach, Fla. Married, 2 children. 48. Peltz Wharton dropout, built up family food distribution business, sold 1978 for $8 million profit. May: M.B.A., U. of Chicago. Started with Peat Marwick as CPA 1965, joined Peltz 1972. Through friend Saul Steinberg, met Mike Milken 1979, promptly built empire with junk debt: bought control Triangle Industries 1983, National Can 1985 (Victor Posner bailout), American Can Packaging and Uniroyal chemical operation 1986. Lots of internal expansion, bolstering rather than stripping firms; total sales $4 billion, highly leveraged. Peltz reportedly "bon vivant," May the bean counter: "We complement each other very well." Sold Triangle 1988 to Pechiney S.A. (France) for notes bearing 10% annual interest, bought back nonpackaging entities, including large real estate assets like Hollywood Inc. in Fla. Recently unloaded partial control of Britain's Mountleigh Group Plc.: took bath. May: "I'd just as soon not be on [your] list, but it's always frustrating to look and say, 'Gee, I'm worth a lot more than that.' " Hanging in there: Peltz net worth now estimated $600 million, receiving $13.8 million/quarter interest; May $300 million ($7 million/quarter interest).

William Clay Ford and family
Josephine Clay Ford and family

Brother and sister. Only surviving grandchildren of Ford Motor Co. founder Henry Ford (d. 1947). Their brother Henry II (d. 1987) named director third year at Yale, never graduated. Called out of Navy on father Edsel's death 1943; took over ailing giant 1945, began phenomenal turnaround of car empire. Remained chairman until 1980 amid lively personal life. Son Edsel II named president of Ford's finance subsidiary this spring. Good chance for advancement: Ford family has 40% of voting power. William: 66. Grosse Pointe Shores, Mich. Married to Martha Firestone, 4 children. Friendly, laid-back, has not held operating slot since mid-50s. Supports management but wants more power for Edsel and son William Jr., 34, an executive director, who also has lofty ambitions. William Sr. owns Detroit (football) Lions; net worth, mostly from Ford stock, exceeds $600 million. Josephine (Dodie): 68. Grosse Pointe Farms, Mich. Married to Walter Buhl Ford (no blood connection), 4 children. Worth, with substantial art assemblage, above $340 million. Other family members have over $360 million more in stock.

Michael Milken (right) with brother and partner Lowell

As Michael built his junk bond empire at Drexel Burnham, he had a right-hand man he could trust like a brother. To further induce Mike Milken, 45, to plea bargain, the authorities promised to drop all charges against Lowell, 42. Michael is serving ten years. Both their fortunes are still threatened by civil suits and legal bills.

Albert Lee Ueltschi

FlightSafety International. Irving, Tex. 74. Widowed, 4 children. Raised on Kentucky farm, learned to fly at nearby airfield. By 16, gave lessons, did air shows. Worked for Pan Am WWII, founded FlightSafety 1951 to train pilots for new corporate planes. Had to mortgage home to build first simulator. "Even though I started the company in '51, I continued to fly until '68 because I couldn't make enough money to send four kids to college." But safe, fast, relatively cheap classes with no crashes told tale: In 40th year, 36 facilities yearly train over 34,000. Shares recently worth some $590 million. Heads Project Orbis: nonprofit group helps world's blind. "You can't do everything, but you can have a lot of fun doing something."

Maurice (Hank) Greenberg
Mansfield Freeman
Ernest E. Stempel ★

American International Group. NYC. Company founded Shanghai 1919 by C.V. Starr (d. 1968), first Westerner to sell insurance to Chinese. Built international conglomerate; no heirs. Large block AIG, investments in private holding companies, controlled

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by key executives: inheritance by management. Today largest commercial underwriter, looking to increasing opportunities Eastern Europe, Asia: "There's a lot on the stove." Greenberg: 66. Married, 4 children. Raised on New York dairy farm. Lawyer. Chance interview at Continental Insurance Co. went badly; Greenberg went to higher-ups: hired immediately. Moved to C.V. Starr & Co. 1961. Rose quickly, named successor 1968. Went public 1969 as AIG. Tough boss: "You haven't achieved any standing until you have experienced his wrath." Stock and other investments worth more than $585 million. Freeman: Greensboro, Vt. 96. Widowed, 1 son. Joined Starr in China early 1920; returned U.S. 1941, retired with healthy load of shares 1960. Son Houghton, vice chairman, 70, votes shares but stock in Freeman's name, recently worth some $425 million. Ernest E. Stempel: Hamilton, Bermuda. 75. Married, 4 children. Joined C.V. Starr as clerk 1938, then only 23 employees. Used stock options, incentive systems to accumulate shares. Stock today worth some $325 million.

Gordon Earle Moore

Intel. Santa Clara County, Calif. 62. Married, 2 children. U. of Calif.; Caltech Ph.D. chemistry and physics 1954. Cofounded Fairchild Semiconductor; with Robert Noyce, started Intel 1968, which invented microprocessor 1971. Dazzled world with dynamic RAM memory chip, went on from there. Currently world's leading manufacturer of microprocessors. In 1965 predicted power of chips would double about every 18 months; so accurate became known as Moore's Law. Moore's comment on prognosticating ability: says in Seventies he thought only use for a personal computer was to index his wife's recipes. Yet thanks to scrupulously observing Moore's Law, his Intel stock now worth over $585 million.

Shelby Cullom Davis

Investment banking. Tarrytown, N.Y. 82. Married, 2 children. Graduated Princeton 1930, Columbia 1931, Ph.D. political science U. of Geneva 1934. CBS' Swiss correspondent before WWII; N.Y. deputy superintendent of insurance 1945: "I got to know who were the bluffers and who were really professionals." With $100,000, founded investment firm Shelby Cullom Davis & Co. 1947, one of first to specialize in insurance stocks; remains chairman: "I'm an equity man. Stocks ride through inflation a lot better than bonds." Devout Republican, ambassador to Switzerland 1969-75. Heavy Princeton donor, supports National Right to Work, chairman Heritage Foundation; intends to leave "high portion" of estate to Heritage: "I can't imagine a better place." Firm, other investments worth some $580 million.

Roger Milliken
Gerrish Milliken
Anne Franchetti
Minot Milliken
and families

Siblings and cousin. Textiles, investments. Heirs of Seth Milliken, cofounder dry goods jobber Deering, Milliken & Co. 1865. With William Deering (later left to start what became International Harvester) Milliken built company debt free, liquid. Bought less-liquid supplier mills in Depression bankruptcies. Grandson Roger: Spartanburg, S.C. 75. Married, 5 children. Currently heads Milliken & Co., largest privately owned U.S. textile firm; sales estimated over $2.5 billion; good margins. Stresses research and development spending. Keeps company details close to vest. "He makes a clam seem like an open mouth." Gerrish: Greenwich, Conn. 74. Married; 4 sons, 2 daughters. Started in cotton mill in Union, S.C. after Army. Retired 1986 but has office in NYC. Director Milliken & Co. and Mercantile Stores Co., both controlled by family. Minot: NYC. 75. Married; 4 sons, 1 daughter. Vice president, director Milliken & Co.; on board of Mercantile Stores. Anne: in her 70s. Very private. Seal Cove, Maine. Has carried gun against possible terrorist attack. Heirs of other Milliken sibling, the late Jane Stroud, ignited ire of Roger by selling some 500 shares of Milliken & Co. to competitor Delta Woodside Industries 1989: sought to force financial information out of secretive Roger. Small amount of company stock belongs to heirs of late Francis Kingsley, one of Roger's best friends. Estimated fortunes with families: Roger, $570 million; Gerrish, $325 million; Minot, $325 million; Anne, $325 million; Strouds, $325 million.

Henry Earl Singleton

Teledyne. LA. 74. Married, 5 children. Son of Texas rancher; after Annapolis, MIT, never veered from calling: big business. Worked for Hughes Aircraft, then Litton Industries, where he met George Kozmetsky. Duo started Teledyne with $450,000 investment 1960s; financed by Arthur Rock. Early, successful conglomerator. Now over 100 companies in aviation, electronics, etc. Major spinoffs: Argonaut Group (insurance), American Ecology (environmental cleanup), Unitrin (insurance) 1990. Master of large-scale divestiture and stock buybacks, has "legendary ability to spot undervalued investments." Retired abruptly from day-to-day management 1989; still chairman of board's executive committee. His Teledyne, other stock, worth some $565 million.

George L. Lindemann

Cable TV, cellular phones. Greenwich, Conn.; West Palm Beach, Fla. 55. Married, 3 children. Born New York City, while at Wharton joined family cosmetics business 1957. Urged father to get into pharmaceuticals, began company which later developed first contact lens; sold out to Cooper Laboratories 1971 for $60 million. Founded cable business soon after ("I owned a TV set"), sold for $220 million 1982. Started cellular firm, Metro Mobile CTS, same year; built to one of biggest independents. His shares, etc. worth estimated $560 million before merger with Bell Atlantic announced late September. "If you look to the future and you're willing to bet on your brain, you'll be there on time. I've never been in a business where anybody understood what I was doing, and by the time they understood I think I had left."

John Murdoch Harbert III

Construction, investments. Birmingham, Ala. 70. Married, 3 children. Won $6,000 from craps game on ship home from WWII, bought concrete mixer, entered construction. Went virtually broke 3 times in 20 years. "Someone who sold us $50 worth of pencils could have, if he desired, forced us into involuntary bankruptcy." Grew slowly. But from 1964 steered toward high-risk, high-profit overseas ventures, e.g., pipeline in S. America, sewer system in Abu Dhabi mid-1970s. Snapped up Ky. and Tenn. coal lands with huge reserves. Late in energy crisis (1981) flipped to Standard Oil of Indiana for $400 million, including 10 million Amoco shares now worth over $500 million. Publicity-shy gambler's 76% Harbert Corp. estimated $560 million.

Richard Mellon Scaife

Inheritance, publishing. Shadyside, Pa. 59. Divorced, remarried; 2 children. Great-grandson of Judge Thomas Mellon *(see other Mellons, Curriers)*. Through Scaife Newspapers, actively runs smallish papers reflecting conservative ideology. Media empire dwindling: Sold 2 papers to Thomson Group 1985; Sacramento Union to local developers 1989. Dislikes publicity, refuses to use middle name (thought father Alan Scaife treated poorly by Mellons). Most prominent Mellon of his generation. Estranged from sister Cordelia Scaife May *(which see)*. Generous contributor to conservative leaders, think tanks. Net worth estimated $550 million, depending on recent divorce settlement.

Erskine Bronson Ingram

Barges; distribution. Nashville. 59. Married, 4 children. After father's death 1962, took over Ingram Corp., an oil refining, marketing and barge company, with brother Fritz. Entered book distribution at urging of family friend 1964; found new business metier. Family split firm 1978 after chairman Fritz convicted for bribery (sentence commuted by President Carter 1981). Bronson acquitted. Steadily added barge, coal, oil, wellhead equipment; has built up his Ingram Industries to over $2.7 billion revenues (over 80% from distribution books, videos, computer hardware and software). "We always had more things to do with our money than we have money to do them." Estimated worth over $550 million.

John G. Rangos Sr.

Waste management. Pittsburgh. 62. Divorced, 3 children. Son of Greek restaurant owner, began building landfills for utilities 1960s. In 1969 he and partner bought Chambers Development, partner sold out soon after. Rangos and sons John Jr. and Alexander acquired more trash companies, municipal contracts, but especially landfill space—realized this would be the industry's scarce resource. Company now one of largest waste disposal companies in nation (1990 revenues $258 million). Growing fast, company expects sales to top $300 million in 1991. According to Rangos, the secret is tight management. Took company public 1985; Wall Street put him on this list: His shares recently worth $545 million.

John Jeffery Louis

Inheritance. Winnetka, Ill. 66. Married, 3 children. First cousin of Samuel Johnson of Johnson Wax *(see also S.C. Johnson)*. Worked in dad's advertising agency, then in international marketing for Johnson Wax. Chairman of Combined Communications 1968; stepped down 1981 after merger with Gannett. Full plate of other investments: director S.C. Johnson & Son, Air Wisconsin, Baxter International, Ralston Purina, Gannett. Strong Republican supporter, ambassador to Britain for Reagan; resigned 1983 reportedly under pressure. Golfer, amateur flier, philanthropist. With family 30% S.C. Johnson & Son interest, other holdings, believed worth $545 million.

Cordelia Scaife May

Inheritance. Ligonier, Pa. 63. Divorced, widowed; no children. Great-granddaughter of Judge Thomas Mellon *(see Mellons, Curriers, Scaife)*. Brief marriage to Herbert May 1950. Wed longtime friend Robert Duggan 1973, Pittsburgh D.A.; he died of gunshot wound during corruption investigation 1974. Brother Richard Mellon Scaife has not spoken to her since. Endowed Laurel Foundation to support education, population control, other liberal causes. Maintained family tradition (Mellon fortune built on 19th-century venture capital) in small way, funded emerging companies through Roldiva, Inc., named after favorite steeplechaser. Lives modestly, privately. Wealth (mainly in trusts) believed at least $525 milllion.

James Howard Marshall II

Oil. Houston. 86. Divorced, remarried; 2 sons from first marriage. Born Germantown, Pa. Yale Law School 1931 (magna cum laude, assistant dean age 28). Worked on WWII government petroleum board, then executive posts with Signal Oil, Ashland Oil. Wrote law against "hot oil" (oil produced above levels set by Texas Railroad Commission). Invested in

John Barrett/Globe

Saul Steinberg and wife Gayfryd

He thought he was in the establishment, until his failed 1969 run at Chemical Bank. In the 1980s he tried to join: He and Gayfryd occupy a former Rockefeller residence, collect Old Masters. She patronized PEN, the writers' group, but was turned upon by petty scribes.

Parker

Partnerships In Engineering Creativity

It took a visionary to dream up Robosaurus. But it took Parker Hannifin to bring it to life.

Engineer Doug Malewicki challenges convention. An award-winning inventor who extends the bounds of the possible, Malewicki has designed a host of unlikely vehicles, including a three-wheeled, gas-sipping car that gets more than 150 miles to the gallon. But nothing compares in magnitude to Robosaurus, a huge electro-hydraulic monster that chews up–and then throws away–cars, to the delight of fans at auto shows nationwide.

Standing 40 feet tall, Malewicki's hi-tech Tyrannosaurus isn't just whimsy. Robosaurus was designed to draw crowds–as it tours arenas and captures imaginations.

And that was the engineering challenge: Robosaurus had to pack maximum entertainment value into a highly reliable design that could be easily transported and erected. Its 58,000-pound steel skeleton had to simultaneously grip, lift, and crush two-ton cars, while ensuring the safety of the operator and the audience.

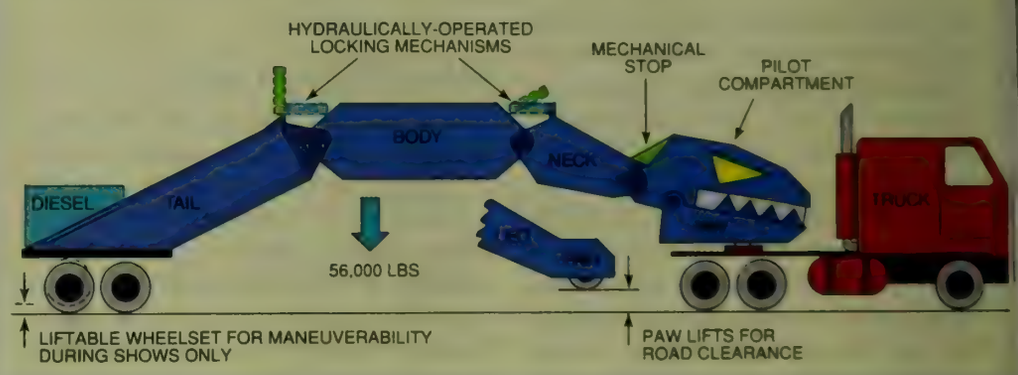
To give Robosaurus life, Malewicki relied on the engineering know-how of Parker Hannifin Corporation, the world's largest manufacturer of motion-control components and systems. Working with a team of Parker engineers, Malewicki tapped the talents of eight of their divisions and borrowed ideas from Parker technologies spanning industries as diverse as aerospace and automotive manufacturing.

Engineers who have seen Robosaurus in action call it a "powerful demonstration of state-of-the-art hydraulic technology." Powered by a 500-horsepower, twin-turbo diesel engine, and controlled by a 500 gallon hydraulic fluid system, Robosaurus required some of Parker's most advanced components in order to replicate the menacing action of the original Tyrannosaurus.

The jaws alone proved an engineering challenge. Their elongated reptilian design provided little leverage and no mechanical advantage. But they still needed to exert 15,000 to 20,000 pounds of precision force.

tems for Robosaurus. The Company utilizes the same technologies that brought Robosaurus to life in a great many useful, productive applications–from factory automation and robotics, to aviation and marine applications, to farm and construction machinery of all kinds.

TRAVELING ROBOSAURUS



Parker Hannifin's Fluidpower Group came up with the solution. Working closely with Malewicki and his people, Parker engineers designed an ingenious turnkey system of components that included cylinders, filtration systems, control valves, pumps, motors, hoses, fittings, and seals. The result? Robosaurus can adeptly scoop up a car, hold it firmly, and then crunch it in its jaws before tossing it to the ground.

"In essence, Parker's engineers became a part of our design team," says Malewicki. "They understood our mission in making Robosaurus an entertainment and engineering marvel. They realized our needs in terms of safety, reliability, appearance, and profitability. With creativity and dedication, they worked hard to make our dream work."

Parker does a good deal more than provide unique fluidpower sys-

The type of partnership employed to develop Robosaurus is the driving force behind Parker Hannifin's worldwide pre-eminence in motion-control components and systems. With more than 800 product lines for hydraulic, pneumatic, and electromechanical applications in some 1,200 industrial and aerospace markets, Parker operates 200 manufacturing plants and administrative offices. In addition, the Company supports more than 4,500 distributors serving more than 258,000 customers in every corner of the world.

Numbers aside, however, it's the meshing of customer service, technological expertise and creative problem-solving that makes Parker components and systems the first choice for a wide range of global customers–from aircraft to machine-tool manufacturers, including creative engineers like Doug Malewicki.

Some engineering challenges are real monsters

Innovative engineer Doug Malewicki envisioned a unique and challenging assignment. With Parker's cooperation, he created a monster – an electrohydromechanical monster named Robosaurus.

Robosaurus demolishes cars and thrills auto extravaganza crowds. He raises them 50 feet from the ground. He bites them in half, rips off their roofs, and crushes them in his monster-sized hands before hurling the mangled carcasses to the ground.

Getting this fire-breathing, fully-movable, car-crushing monster operational called for the contributions of eight Parker divisions.

Parker engineers assisted Malewicki and his team in designing a unique turnkey system of cylinders, valves, pumps, motors, filters, seals, hoses, and fittings. And Parker's support system keeps Robosaurus in shape as he tours the world.

This type of hands-on involvement exemplifies the Company's partnerships with industrial, automotive, and aerospace manufacturers the wor over – partnerships which have helpe make Parker a $2.44 billion-per-year leader in the motion-control industry.

For Parker's fiscal 1991 annual report, write: Parker Hannifin Corporation, Dept. FB-16A, 17325 Euclid Avenue, Cleveland, Oh 44112-1290. For product information customers may call 1-800-C-PARKE

A partnership in vital technologies Parker

(PH-NYS

[illegible] at Northern Oil Co. with friend Fred Koch, father of present Kochs *(which see)*. Eventually swapped stock for interest in Koch Industries. Calls net worth estimate a "pure fantastic calculation." But Kansas state documents nonfantastic: His nearly 15% ownership of Koch Industries estimated worth at least $525 million.

John Orin Edson

Leisure craft. Seattle. 59. Married, 2 children. Founded Bayliner (powerboats) 1955. Company sped past rest of boating competitors; sales, profits doubled in each of last 3 years before sale to Brunswick late 1986. Basic manufacturing tack: simplify production, lower per-unit cost by making single product in great quantity, and attract buyers with subsequently lower prices. Edson, made wealthy by Brunswick buyout, conservatively invested proceeds. He and wife now travel extensively. Maintains 105-foot yacht; building a 160-foot fiberglass yacht; owns and pilots several planes; he, wife fly his-and-hers helicopters. Net worth estimated $525 million.

Caroline Rose Hunt

Inheritance; oil, real estate. Dallas. 68. Twice divorced, 5 children. Second daughter of H.L. Hunt. With sister Margaret *(which see)*, separated assets 1983 from brothers William Herbert, Lamar and Nelson Bunker, who failed to corner silver market. Diversified her Rosewood Corp. into real estate. Owns Dallas' Mansion at Turtle Creek, Crescent Court office complex, estimated 1,000-plus acres; manages London hotel. Sold much domestic oil production for estimated $275 million. Separate Dutch North Sea operation still profitable. Lost over $90 million in Milken-cursed First Executive S&L. Recently restructured defaulted Citicorp note. Sons run business while Caroline looks after antiques. Might be worth some $525 million.

James McGlothlin and family

Coal. Bristol, Tenn. 51. Divorced, remarried; 1 daughter, 6 stepchildren. College, law school at William & Mary. Lawyer, ran small restaurant business. Founded United Coal Co. 1970 as surface mine with 11 employees; added mines during energy crisis. Now one of lowest-cost U.S. producers, secret is nonunion contract labor. Reserves almost all low sulfur. Survived 1980s price fall with lucrative long-term contracts from utilities, steel companies; also diversified into oil, gas, financial services, now almost 50% of revenues. Shares company with father, cousin. Likes golf, basketball; disconcerting practical joker: "Life doesn't have to be dull just because you're president of a company." Estimated worth some $515 million.

Roy Hampton Park

Media. Ithaca, N.Y. 81. Married, 2 children. Born on North Carolina farm, entered N.C. State at 15. AP stringer for $18/week, ran college paper. Launched Ithaca ad agency 1942. Landed Thomas Dewey ad campaign: "If he'd won, I'd be a happy retired bureaucrat." Cofounded Duncan Hines 1947; sold to Procter & Gamble for stock 1956. Acquired first TV station 1962, built up Park Communications; now 7 TV, 20 radio; also 140 small rural dailies, weeklies, etc. Owns about 2,000 acres Florida orange groves; commercial real estate; ConAgra stock. Wears gold watch on each wrist; wife raises peacocks. Ithaca College named media school for him 1989. Estimated worth at least $515 million.

William A. Dart ★

Dart Container Corp. Sarasota, Fla. 64. Married, 3 children. Became partner in father's steel tape measure manufacturing business, founded Michigan 1937. Began experimenting with plastics 1953. In 1960 pair produced foam cup with own-design equipment, technology. Private Dart Container Corp. now world's leading maker foam cups, 15 plants North America, England; makes own polystyrene resin feedstock; has own truck fleet. Continuous and active family management; W.A.'s son Kenneth president, son Robert vice president. Son Thomas runs family's Dart Energy, oil and gas concern. Made recent purchase 6.5 million Freddie Mac shares. Stock, other assets worth estimated $500 million.

Dennis Washington

Mining, railroads, etc. Missoula, Mont.; Sun Valley, Idaho. 57. Married, 2 sons. Heavy-crane operator in Alaska, then back in Montana (loved big machines). Got $30,000 business loan and got married, age 30. Built to Montana's largest contractor. Noticed assets of unaggressive big companies. Bought closed Anaconda copper mine for $20 million 1985 from Arco, copper prices surged; 1989 sold nearly half for $125 million. Bought rail system from Burlington Northern 1987, renamed Montana Rail Link, profits now estimated over $33 million a year pretax. Owns about 55,000 acres in Montana, horses, yacht, airplane. This year bought 64,000-acre Oregon commune with hotel, jet strip, bomb shelter, formerly owned by Indian guru Bhagwan Shree Rajneesh. Net worth at least $500 million. "What makes a superstar is luck."

Laszlo Nandor Tauber

Real estate. Potomac, Md. 76. Divorced, remarried; 2 children. Born Budapest; champion gymnast, medical school. Escaped Nazi labor camps on second try: "I just walked away one day." To U.S. 1947, set up medical practice. Dreamed of building own hospital, surgeon's income not enough; built apartment project on $9,500 lot. Switched to offices, primarily for U.S. government, at initial low rent to win bid; raised on re-lease. Eventually, Uncle Sam's biggest landlord. "We don't want to take chances." Built Jefferson Hospital in Alexandria, Va. Still full-time surgeon but may be retiring this year to write surgery texts. Real estate, etc. estimated worth over $500 million, net. "I've been so lucky, I am wrong to complain."

Delford Michael Smith ★

Air carriers. McMinnville, Ore. 60. Divorced, 2 sons. Orphaned, raised by adoptive mother. "I always worked." As boy, 3 newspaper routes. Worked

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his way through U. of Washington (1953); Air Force 1953-56. Started forerunner to Evergreen International Aviation 1960, bought 2 helicopters on credit; fleet now 100 helicopters, small aircraft, dozens of heavy-transport airplanes, including 727s, 747s, DC-8s, DC-9s. At first, tree seeding, spraying. Then missions for government around world. Rapid growth. Rumors say CIA. Smith: "We are opportunists." Recently, agreements to carry cargo to Saudi Arabia, make regular cargo stops in eastern Siberia. Net worth estimated at least $500 million.

William Gordon Bennett
William Norman Pennington

Partners. Circus Circus. Bennett: Las Vegas. 66. Pennington: Reno. 68. Both married, each 2 children. Bennett, a Del Webb representative, bought gaming equipment from Pennington, who recalled start of magical relationship: "We both liked flying, we were about the same age, and we both liked everything each other liked." Joined forces 1971 to distribute slot machines, hoped to use profits to buy casino. Bought Circus Circus, casino with live circus acts, 1974. Broke with competitors: targeted middle-class family market with inexpensive rooms, food. Pennington: "We cater to middle America. We don't want high rollers." Middle class plays lots of slots: now 7 casinos, including castle-theme Excalibur, the largest hotel ever built (4,032 rooms). Pennington, retired 3 years, still confers with partner: "I'm just enjoying the devil out of things." Bennett's stock, other assets worth $500 million; Pennington's worth an estimated $400 million.

John Lee Cox

Oil. Midland, Tex. 66. Married; 1 son, 1 daughter. Grew up in West Texas; father worked for oil company. Graduated Rice U.; started as petroleum engineer 1946; struck out on own 1952; major early partner Joseph Gruss *(which see)*. Known as "Sprayberry King" because he built fortune on interest in over 1,000 wells in West Texas' Sprayberry Trend. Cox currently operates some 800 wells there and in southern Texas, New Mexico, Oklahoma, Rockies. "The recession hasn't affected my business that much, but it's kept me from expanding. If oil and gas prices were [higher], I'd drill 200 wells," not 75. Golf, Dallas Cowboys fan. Tex Moncrief *(which see)*: "John is what we call a man's man." Net worth estimated well over $500 million.

William Russell Kelly

Kelly Services, Inc. Troy, Mich. 85. Married, 1 son. Born British Columbia; father, oil pioneer, died 1928 leaving no estate, 7 children. Dropped out of U. of Pittsburgh. Car salesman. Stint as accountant. Fiscal manager for Army WWII. Hit on idea: postwar, office business machinery burgeoned; trained operators needed. Opened Russell Kelly Office Services, Detroit 1946, sent out "Kelly Girls" with calculating machines. Spread nationwide, took public 1962. Now largest U.S. supplier temps, over 575,000 employed last year; 950 offices worldwide. Because of recession, smaller profits, company not expand-

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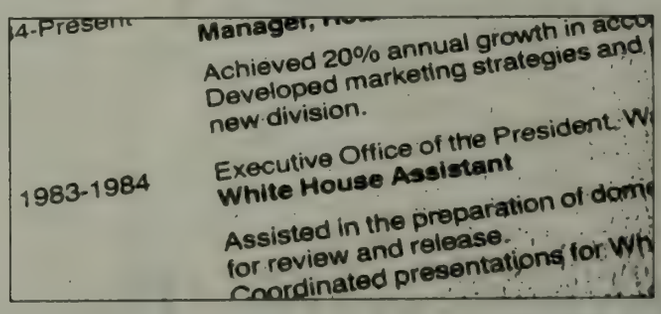

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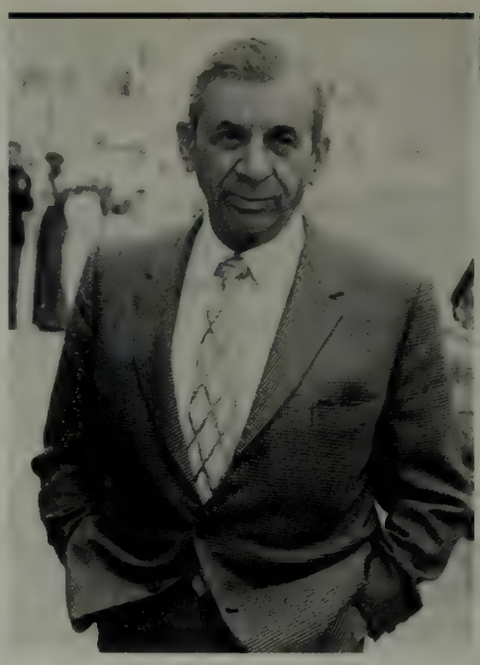
as usual. Terence Adderley, adopted son, president and chief executive officer, has $136 million worth of stock. Kelly worth at least $500 million.

Patrick Joseph McGovern

Publishing. Nashua, N.H. 54. Divorced, remarried; 4 children. Built computer from scratch as teenager; won MIT scholarship, worked on MIT computer magazine, launched International Data Group 1964—flagship publication Computerworld. Now more than 150 newspapers and magazines in 50 countries, including U.S.S.R.; also related information services. Slowly selling stock to employee trust (more than 30% so far) "to build a total, common family." Believes in letting employees have autonomy: "If you have the right people, all you have to do is meet once a year and say, 'How did it go?' " Lives modestly, flies coach. Recessional results down, but worth estimated at $500 million.

William Ingraham Koch
Fredrick Robinson Koch

Brothers. Energy services. Two of 4 sons of Fred Koch (d. 1967), founder Koch Industries, now $17-billion-plus oil industry giant. Bill: Palm Beach. 51. Married, 1 child. Fred: Monaco, NYC. 57. Single. Family split 1981; brothers Charles, David *(see both)* controlled company. Bill claimed mismanagement, poverty. "I'm one of the wealthiest men in America and I had to borrow money to buy a house." Brother Fred, big donator to arts, joined Bill's fight; buyout settled feud 1983. Bill founded Oxbow Corp., mixed bag of businesses—energy trading company, real estate, geothermal electric plants, New England Business magazine, leased office space. Sales estimated near $1 billion. Worth $500 million or more? Spokesman: "You're way low." Recently spends much of time sailing, preparing to defend America's Cup spring 1992. Fred: Harvard, then Yale drama school. Reclusive art collector, restorer. "The guy just isn't into business." Believed worth at least $500 million.



UPI Bettmann

Meyer Lansky, little old mobster

The mobsters' mobster, he was among the last survivors of the Capone days. Reputed to control an international web of mob enterprises worth billions, he lived modestly in Florida, and was buried in 1983 in a plain pine box.

Amos Barr Hostetter Jr.

Continental Cablevision, Inc. Boston. 54. Married, 2 daughters. Son of stockbroker from Short Hills, N.J. Harvard M.B.A.; stint in utility finance. "Bud" started cable company with frat brother H. Irving Grousbeck 1963. Each put up $4,000 (as did Bud's father). Acquired and built franchises. Dow Jones took 17% stake. Acquisition-hungry: Bought McClatchy *(see family)* cable company 1986, American Cable Systems 1988. Now over 2.7 million subscribers. Bought out Dow Jones for $300 million 1989. Grousbeck left to teach 1981, still owns 10%. After debt, company believed worth $1.2 billion. Hostetter 43%: over $500 million.

Neil Gary Bluhm
Judd David Malkin

Partners. Real estate. Winnetka, Chicago, Ill. Both 53; married; 3 children each. Childhood buddies from blue-collar section of Chicago's North Side; college roommates U. of Illinois. Both CPAs; Malkin had Toyota dealership and dragged lawyer Bluhm into real estate syndicate 1968. Judd: "I had to twist his arm to leave." JMB Realty Corp. careful user of leverage, among first to syndicate with huge pension funds, other institutional investors. Big bucks: Built up to control over $24 billion real estate assets 1990; many for own account. Neil: "We do lots of things besides syndication." Bought Disney's Arvida Development Corp. for $400 million 1987; Canada's Cadillac Fairview for $2 billion 1987; Amfac (one of largest Hawaiian landholders) 1988; sold CyberTel recently for nice profit. Also real estate in London, Houston, Chicago, California. Pair's interest JMB, given fuller list of assets, suggests net worth now near $500 million each amid real estate recession. "A lot of developers are high profile. They can have the glory; we'll take the cash flow."

Charles Henry Dyson

Conglomerator. NYC. 82. Widowed, 4 children; 1 son in business. Price Waterhouse CPA, decorated WWII colonel; represented Treasury Department at Bretton Woods 1944; left Textron VP post 1949, felt it was diversifying too slowly. Launched Dyson-Kissner (now Dyson-Kissner-Moran) with former colleague Franklin Kissner. Built conglomerate DKM, which has acquired well over 30 companies last 7 years alone. Interests in public companies (Varlen Corp., Esterline Tech., etc.), private companies with sales over $1 billion. Extensive real estate, developing actively, also some oil and gas. With family, owns some 91% DKM; estimated more than $500 million.

Robert Staples Howard

Howard Publications. Rancho Santa Fe, Calif. 67. Married, 4 children. U. of Minnesota dropout. After WWII inherited hometown (Wheaton, Minn.) paper: "I swept the floors, melted lead, sold ads, wrote stories . . . you name it." Founded Howard Publications 1961; saw possibility of owning more than one newspaper. Built to 18 dailies, nearly 450,000 subscribers; added other media. Unassuming (flagship is northwest Hammond [Ind.] Times) but profitable

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chain; minimal debt. In 1988 sold Buffalo TV station to King World for $100 million. Sold 40% stake Choice TV, cable joint venture with Don Reynolds *(which see)*, for $72 million 1989. Now zero cable TV. Despite newspaper industry recession, still believed worth at least $500 million.

John Richard Simplot and family

Potatoes. Boise, Idaho. 82. Divorced, remarried; 4 children. Quit school, left home in 8th grade; invested in hogs age 17, later potato sorter. Capitalized on WWII with vegetable dryer: sold dried onions, potatoes to Army. Ensured fortune when company scientist developed process for freezing cut potatoes 1950s. Now "Mr. Spud" produces nearly 1.5 billion lbs. annually: more than 50% of McDonald's fries. Potato peelings help feed 300,000 cattle; sells fertilizer to contracted potato farmers. Also other frozen vegetables; transport; Micron stock. Sports 55-foot U.S. flag outside home: "I love America. We've got the only system that works—it keeps everyone hustling." Diversified holdings, run by Simplot and family, estimated $500 million.

Jeremy Maurice Jacobs

Sports concessions. East Aurora, N.Y. 51. Married, 6 children. Father founded concession business with brothers 1915 in theaters, baseball parks. Made loans to troubled sports teams for exclusive long-term rights—one comes up for renegotiation 2000. Jerry CEO on father's death 1968: "He created a wealth and discipline that were his needs at the time. I valued his way of life, but . . . I do a lot of things to get away from work." Today, contracts shorter; competition intense in major- and minor-league markets. Delaware North Co. diversifying: 11 dog racing tracks; Boston Garden, Bruins (hockey); aluminum ingot operation. Longs for Japanese baseball concessions. Estimated worth $500 million or more.

Leonard S. Skaggs Jr.

American Stores Co. Salt Lake City. 68. Married, 4 children. Grandfather Samuel started Skaggs Cash Stores in Idaho 1915. Taken over by 6 sons; later became Safeway. Father bought Payless Drug Stores, Utah, 1939. Leonard Jr. took over age 26, at father's death 1950. Partnership with Joe Albertson *(which see)* developed lucrative idea 1969: drug and grocery stores under one roof. Friendly split 1977; Sam built own empire: 1,846 stores in 36 states; 1990 sales, $23 billion. Important acquisitions include Jewel Cos. 1984; Lucky Stores 1988. Known to employees as The Wizard. "He puts in good people and gets rid of all the deadwood." Very private. His shares largest food/drug chain recently worth $495 million.

Bella Wexner

The Limited, Inc. Columbus, Ohio. Mid-70s. Widowed, 2 children. Mother of Leslie Wexner *(which see)*, who founded women's retail clothing chain The Limited. Bella, buyer for the Lazarus stores, married Russian immigrant Harry Wexner, who at 13 worked in tin-can factory. Together opened women's clothing store. Son started own; Bella joined his business after specialized retailing boomed. Harry died 1975. Bella still active, now company secretary; occupies office across from her son: One of largest U.S. specialty, mail-order retailers women's apparel. Leslie: "I regret that my father never lived to see it." Bella's shares of Limited stock recently worth over $490 million.

John Charles Haas
Fritz Otto Haas

Brothers. Rohm & Haas Co. Sons of German-born Otto Haas, who immigrated to U.S. 1901. Went back to Germany 1907, built successful business (partner Otto Rohm stayed in Germany). To U.S. again 1909, opened U.S. office of Rohm & Haas Co.; company's first U.S. product: Oropron for tanners, replaced manure as agent of choice. Added pesticides 1920s, developed Plexiglas 1936. Went public 1949. Rohm's stake sold in offering, Fritz took charge of company after father's death 1960. Ill-fated diversification into fibers (polyester), pharmaceuticals; shrugged off. Today company important producer polymers, plastics, various chemicals. Both now retired. John: Villanova, Pa. 73. Married, 5 children. F. Otto: Ambler, Pa. 76. Married, 3 sons. Passed presidency 1970 to nonfamily executive. The 2 brothers' 21.7 million shares recently worth about $955 million.

Jane Bancroft Cook

Inheritance. Cohasset, Mass.; Sarasota, Fla. 79. Thrice widowed, once divorced; 3 daughters. Last living grandchild of Clarence Barron (d. 1928), who amassed Dow Jones empire (acquired Wall Street Journal, Dow Jones ticker in deal with Charles Dow 1902). Jane once avid sailor, rider; played opposite Humphrey Bogart in summer acting troupe. As director Dow Jones & Co. 1950-85, "a zealous guardian of the journalistic independence of the Journal." Company also publishes Barron's, 23 local newspapers; operates news wires, radio and TV programming; estimated 1991 revenues $1.7 billion. Dow Jones stock fortune split among Jane and two other branches of Barron's dynasty. Jane's third totals some $480 million.

Craig O. McCaw
John Elroy McCaw Jr.
Keith W. McCaw
Bruce R. McCaw

Brothers. McCaw Cellular Communications. Sons of John Elroy McCaw, radio, TV pioneer in Northwest; died 1969, company mired in debt. Family forced to sell all but one cable system. Craig took over while studying at Stanford. Formed partnerships to raise cash for rapid expansion. Sold off cable TV business 1987 for $755 million. Took bet-the-ranch gamble: moved into cellular, created public company—McCaw Cellular Communications—to raise more capital; leveraged into biggest cellular telephone service in nation (1990 revenues, $1 billion). In 1990 acquired LIN Broadcasting, also major cellular carrier. Debt burden huge. Craig: CEO. Bellevue, Wash. 42. Married, no children. Industry genius, envisions a "seamless" national cellular network. John: executive vice president, head

of acquisitions. Seattle. 40. Married, 3 children. Bruce: director. Seattle. 45. Single. Keith: no longer director, still major shareholder. Seattle. 38. Married, 1 child. All involved in company since beginning. Brothers' stock recently worth more than $1.5 billion; Craig's alone, $480 million.

Robert Alfred Lurie

Real estate, inheritance. SF. 62. Divorced, remarried; 6 children. Son of Louis R. Lurie (d. 1972), colorful real estate, entertainment mogul who purchased $1,000 printing firm at age 14 in Pacific Northwest. Went on to build 300 buildings Chicago, SF; produced Broadway hits *(South Pacific, West Side Story)*, movies *(Tarzan)*. Introverted son Robert inherited: conservative caretaker; eschews debt. Dedicated to San Francisco (baseball) Giants, purchased 1976: "It's more interesting and challenging than making real estate deals." Hopes for new SF stadium quashed in community vote 1989; turned to other possible sites; all bets now off. Real estate, Giants estimated $480 million.

Alexander Gus Spanos

Real estate. Stockton, Calif. 68. Married, 4 children. Tough working conditions in father's bakery as a kid: frequently beaten, forbidden to play high school sports. Started catering company 1956 with $800 bank loan; made extra cash selling sandwiches to migrant farm workers. Built first apartments as tax shelter 1960, found good business: A.G. Spanos Construction became land developer, recent sales $307 million, gross profit margin 25%. Owns 80% of San Diego (football) Chargers. Invested with raider Paul Bilzerian and Ed DeBartolo *(which see)* in Singer takeover 1988. Memorable dance routine with golf pal Bob Hope. Net worth estimated perhaps $480 million. Satisfied? "Never. The day I'm satisfied, they can bury me."

Sigfried Weis
Robert Freeman Weis

Cousins. Weis Markets, Inc. Sigfried: Lewisburg, Pa. 75. Robert: Sunbury, Pa. 72. Both Yale graduates; married, 3 children each. Expanded family's Pennsylvania grocery store operation started by grandfather Sigfried as Selins Grove general store 1870; later cash-and-carry store under Sig's and Robert's fathers. Became Weis Markets 1947; Sigfried president, Robert vice president since. Nonunion business now over 100 supermarkets in 5 states, primarily Pa. Earnings increased steadily through 1980s, profitability well above average for the industry. Success due in part to vertical integration—they sell over 1,500 private-label products for own stores. Operate 5 ice cream shops. Also aggressive cost control. Company credo: serving each customer one at a time, as if only customer in store. Company recently made alliance with Sam Walton's *(which see)* Wal-Mart Stores; soon to open stores next to each other in Pennsylvania. Sigfried's stock recently worth nearly $475 million, Robert's worth over $400 million. Robert's sister Ellen has $120 million.

An Wang and son Fred
An Wang invented early computers' key memory core, and his Wang Labs made him briefly a billionaire. But he put Fred in charge and got squeezed by more versatile PCs. The company was soon in deep trouble, the Wangs off our list. An Wang died in 1990.

Roy Edward Disney

Walt Disney Co. Los Angeles. 61. Married, 4 children. Nephew of Walter Elias Disney (d. 1966), genius cartoonist. Walt cofounded Disney productions with brother Roy O. Disney 1923. Mickey Mouse appeared 1928; rest, history. Walt Disney Co. now theme parks, cartoons, copyrights, movies, Disney Channel, etc. Roy E., son of Roy O., asst. film editor *Dragnet* TV series 1953. Worked in Disney studios 23 years: cameraman, film editor, etc. Independent producer/investor after management dispute 1977. Returned as vice chairman 1984; heads animation dept. Chairman Shamrock Holdings: real estate, media investments, etc. Net worth estimated $470 million. Uncle Walt's heirs also have substantial holdings.

Daniel James Terra

Lawter International. Chicago. 80. Widowed, remarried; 1 son. Father an Italian immigrant lithographer. Graduated Penn State 1931, chemical engineering degree; sang in speakeasies to scrape by during Depression. Unveiled high-speed print process 1936 that could churn out magazines in 24 hours. With $2,500 loan, founded specialty printing ink firm, Lawter Chemicals, 1940. Delegated management 1955; paid off. Today, Lawter pushing innovative nonpollutant ink for graphics industry, which accounts for 70% of Lawter's revenues. Major art collector since wife sparked interest in American pieces 1960. Opened Terra Museum of American Art in Chicago 1988. With stock, art, estimated $470 million.

Reese McIntosh Rowling and family ★

Oil, gas pipelines. Corpus Christi, Tex. 63. Married, 4 children. Worked as geologist at oil companies. Went

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[illegible] own, founded Tana Oil & Gas 1972. In early 1980s recession, virtually debt free; bypassed competition: "drilled lots of wells while other companies were busy paying their bank loans." By 1989 one of largest private independent exploration firms in U.S.; sold oil and gas production unit to Texaco. Took mostly special Texaco preferred stock as payment, avoiding much capital gains tax. Also cash; some sunk into hotels in Corpus Christi. Son and company spokesman Robert believes "Corpus Christi is probably number one in America in unrealized potential." Net worth $465 million.

Richard Allen Smith

General Cinema Corp. Chestnut Hill, Mass. 66. Married, 3 children. Father Philip founded company 1922, opened drive-in theater 1934, built chain; d. 1961. After Harvard, Richard joined 1946. Spearheaded new phenomenon: multiple-screen theaters. GCC spread to 1,488 screens at 314 locations. With excess cash 1968, began buying small soft drink bottlers. Built to nation's largest independent Pepsi-Cola bottler, sold to PepsiCo for $1.77 billion cash ($865 million profit) 1989. GCC also acquired 60% Neiman Marcus Group 1987; interest Cadbury Schweppes 1986, sold 1990. "We've always been driven by the search for value, not the need to build an empire." Philanthropist. His shares recently worth $460 million.

Norman E. Alexander

Sequa Corp. Scarsdale, N.Y. 77. Married, 4 children. Son of South Bronx spats manufacturer. Columbia Law School. Joined family business during Depression, switched to leggings. Soon branched out alone: bought organic-pigment firms starting 1950, merged into Sun Chemical (printing inks) 1957, took control. Acquired Chromalloy American 1986, concentrating in aerospace, machinery, specialty chemicals. Renamed Sequa 1987; recently discontinued transportation, financial services, to focus on high technology (including Trident submarine missile systems). Revenues $2.2 billion 1990. Alexander also owns Ampacet Corp., private plastic resins company; 1990 sales, $200 million. Alexander recently estimated over $455 million.

Henry R. Kravis
George R. Roberts

Partners. Leveraged buyouts. With Jerry Kohlberg *(which see)* left Bear, Stearns 1976; Kohlberg Kravis Roberts prowled for LBOs. Bought big: Houdaille Industries, $370 million, 1979; first $1 billion deal: Wometco 1984. Later, Storer Communications, Safeway, Beatrice, Owens-Illinois, Duracell, etc. Kohlberg left 1987, opposed hostile takeovers, prices; sued; still partner in some deals. In 1988, largest LBO ever: RJR Nabisco, $26.4 billion. Many partner-investors in all deals. KKR usually gets 20% LBO profits; also fees: 1.5% management fee, 1% investment banking fee, etc. Partners' risk minimal: typically 1% of equity. Investors not complaining: annual returns often 30%-40%. Profitably liquidated 1990: Beatrice, Motel 6; took Safeway public. Back on takeover trail 1991: nine magazines from Rupert Murdoch for $600 million; bought into Fleet/Norstar Financial Group, which bought failed Bank of New England for $625 million. Also took RJR, Duracell public. Henry: NYC. 47. Divorced, remarried; 2 children (1 son recently deceased). Hardnosed son of Tulsa oil geologist. High profile on NYC social scene: lavish donor to Met, ballet, hospitals. First cousin George: San Francisco. 48. Married, 3 children. Very private, hates NYC; runs SF office with brother-in-law Robert MacDonnell. Net of other KKR partners, cousins estimated $450 million each, plus unrevealed share RJR stock.

Wilton Robert Stephens and family
Jackson Thomas Stephens and family

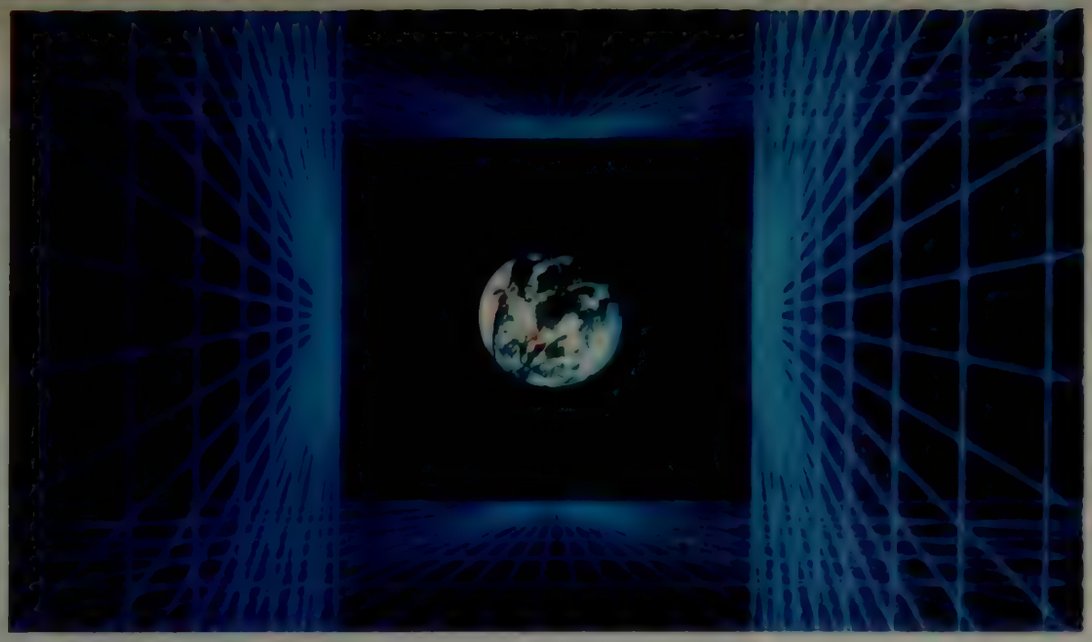
Brothers. Investment banking, etc. Little Rock, Ark. Witt: 84. Widowed, remarried; 3 children. Jack: 68. Divorced twice; 2 children. Witt peddled belt buckles and Bibles, then switched to municipal bonds 1933. Bought at low Depression prices, sold high. Bought natural gas producer 1953 to exploit rich Arkoma (Arkansas and Oklahoma) Basin; now at least 150 billion cubic feet in reserves, seemingly bottomless: "I worked the state of Arkansas and I worked it pretty good." Brother Jack built Stephens Inc. into third-largest investment house off Wall Street: underwrote Wal-Mart 1970; helped Tyson Foods' takeover of Holly Farms 1989, etc. Large stock stakes include Worthen Banking, Alltel, Beverly Enterprises. Also miscellaneous operating companies, often mixing politics, business. Brothers Arkansas political kingpins; Jack major fundraiser for Annapolis classmate Jimmy Carter 1976, 1980. "Granddaddy of them all," cigar-chomping Witt still works full day at the office: "Just tell them I'm a Democrat, a Baptist and a farmer." Jack chairman; son Warren, 34, president, CEO. Two brothers, families share fortune estimated at $900 million.

Jon Meade Huntsman

Plastics. Salt Lake City. 54. Married, 9 children. Son of Idaho teacher; Wharton, USC. Managing in-laws' egg-processing plant inspired 1965 joint venture with Dow Chemical: polystyrene egg containers. Appointed HEW 1970; later Nixon aide. With brother, started new plastics-product company 1968. Survived near-bankruptcy, revived; sold out 1976. Founded Huntsman Chemical (polystyrene) on leverage 1983; bought big polypropylene capacity 1987. High leverage, but got in dirt cheap; cleaned up on industry turnaround. Looking abroad; especially U.S.S.R.: "Business is no place for people with cold feet. That's what they don't teach at Wharton. . . . One has to be an optimist." Utah chairman for Reagan, Bush. Estimated $450-million-plus.

John Edward Anderson

Beverage distribution, real estate. Bel Air, Calif. 74. Widowed, remarried; 4 children. Peddled popcorn outside dad's Minnesota barbershop. UCLA hockey scholarship 1936; Harvard M.B.A.; night law school Loyola. Cofounder Kindel & Anderson law firm



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1953; formed Ace Beverage 1956 with personal investment egg, got Los Angeles rights to then minor brand, Budweiser. Parent Topa Equities now includes banks, insurance. Purchased First Business Bank (LA) 1989 for $86 million: "Price has never been the utmost item to me in making a deal." Low profile, but $15 million UCLA business school gift 1987: "Lead by doing, and be appreciative of your associates in words and acts and in your compensation of them." Estimated worth over $450 million ("I've been hungry emotionally for success").

Bob John Magness

Cable TV. Englewood, Colo. 67. Widowed, remarried; 2 sons. Born Oklahoma, worked as roughneck, cottonseed buyer. Served with Patton's Third Army in Europe WWII. B.S. Southwestern State, 1949. Started first cable system 1956 in Memphis, Texas. Built small-town systems, depreciated; built in larger towns. Became Tele-Communications, Inc. (TCI) 1968. Today largest cable company in U.S. (1990 revenues, $3.6 billion; 8.5 million subscribers). Through 56% ownership United Artists Entertainment, also major movie theater operator. Magness resigned Capcom Financial Services 1988, in same year company was indicted for BCCI scandal. Raises cattle, horses; collects art of the American West. His TCI stock recently worth over $450 million.

Marvin Herb ★

Bottling companies. Chicago. 54. Married, 2 children. Born and raised upstate N.Y., U. of Buffalo, M.B.A. U. of Toledo. Bronx plant manager for Pepsi-Cola. Then joined Borden 1970s as president of dairy, soda-bottling operations; eventually became president, consumer products division. In 1981 left to buy Coke's Indianapolis, then Chicago, bottling operations. Hired previous Pepsi colleagues: sued by Pepsi, but experienced team worth it. Currently distributes about 86 million cases in 5 states—Coke's third-largest bottler. Fanatically publicity shy. Estimated worth at least $450 million.

Oveta Culp Hobby and family

Media. Houston. 86. Widowed, 2 children. Daughter of state representative; had political interests: Texas House parliamentarian at 20; ran for legislature at 25, lost. Age 27, wed Houston Post Publisher William Hobby; added radio, TV. Liberal Republican, fashion plate, first HEW secy. under Eisenhower (second woman at cabinet-level post). Son William Jr., Texas lt. governor; daughter Jessica Catto published Wash. Journalism Review. Founded H&C Communications 1979; sold Post 1983, bought Cowles Broadcasting 1985; now 5 TV stations, 1 radio. Fortune (mostly in heirs' names but controlled by Hobby) believed down some 30% with fall in media values, estimated around $450 million.

Arthur Bejer Belfer and family

Oil, real estate. NYC. 83. Widowed, remarried; 3 children, 2 stepchildren. To U.S. from Poland WWII. Stopped making sleeping bags for Army 1952; discovered oil and gas business. Went public 1959 as Belco Petroleum Corp. Created large resource base in Peru, while tapping domestic natural gas resources. After oil endeavor in Israel flopped, spread out into U.S. coal mining 1969. Friendly takeover by InterNorth 1983. Company renamed Enron 1986. When Belco of Peru nationalized same year, Belco's output chopped in half. Arthur chairman emeritus; son Robert, 56, Enron director, tennis fanatic. Family's Enron stake, vast NYC real estate holdings worth estimated $450 million.

Clarence Scharbauer Jr.

Inheritance, oil. Midland, Tex. 66. Married, 4 children. Family moved from NYC, settled in Midland 1889; father became leading citizen—built the hotel, ran the bank. Also rancher, bought up thousands of acres in Goldsmith Field to feed cattle. Land turned out to be in one of the richest U.S. oil provinces—the Permian Basin. First strike: 1935; has produced 900 million barrels of crude to date. Clarence Jr. reputed one of most powerful men in Midland. Doesn't drill, just collects millions in royalties. Very private. Tends to horses. With revised oil reserve estimates, believed worth over $450 million.

Robert Guccione: more than skin-deep

Penthouse females one-upped Playboy females on nakedness—alongside big-time bylines, including William F. Buckley Jr.'s and Harrison Salisbury's. But both mags' circulation fell in the 1980s, as the baby boomers grew up.

Clayton Lee Mathile ★

Pet food. Dayton, Ohio. 50. Married, 5 children. Former Campbell Soup buyer hired as general manager 1970 by Paul Iams, animal nutritionist turned pet-food maker. Iams looking for successor, Clayton running things by 1975. Bought out Iams cheap 1982. "He got a real sweet deal." Grew from $16 million sales to $210 million 1990. Pioneered fast-growing $1 billion yuppie puppy food market. Sold breeders with discounts, promise of smaller stools, better health. Result: near-commodity product but margins up to 25% pretax. Described as "born again" Catholic who runs company in "Judeo-Christian" manner: Extremely generous with employees: bonuses, birthday cards, etc. Estimated around $450 million; spokesman claims much less.

Teresa F. Heinz ★

Inheritance. Fox Chapel, Pa. 53. Widowed, 3 children. Controls family soup company shares after death of husband, Senator Henry John Heinz III (R–Pa.), in April plane crash. Married "John" 1966. John's great-grandfather H.J. Heinz sold horseradish Pa. 1869. Opened U.K. pickle co. 1886; cornered market. Two years later founded nation's ketchup, pickles, soup superstar. Now also Weight Watchers, Starkist, Ore-Ida, Nine Lives; 1991 sales est. $7.2 billion, powered by renowned ketchup with over 50% market share. No family members in H.J. Heinz Co. management. John elected Senate 1976, focused on finance issues, elderly. Teresa now holds block of family shares recently worth $445 million.

John William Berry Sr.

Yellow Pages. Dayton. 69. Twice divorced, remarried; 5 sons. Army WWII. Dartmouth. Son of Loren M. Berry, who sold horseradish, then ad space in train schedules as boy. Traveling salesman took dreams and $200 to Dayton 1910. Talked Dayton Home Telephone Co. into ad sales campaign using one-color paper. "Mr. Yellow Pages" died 1980 at 91. John Sr. bought out siblings, expanded. Sold L.M. Berry & Co., second-largest Yellow Pages ad agent, for estimated $335 million in BellSouth stock 1986, retired 1987. Now chairman Berry Investments: hunting supply company, security device firm, etc. John Jr. heads the Berry Co., a wholly owned subsidiary of BellSouth. Fortune at least $440 million.

Lawrence Fisher
Zachary Fisher

Brothers. Real estate. NYC. Larry, 81; Zachary, 80. Both married, 1 child each. Third-generation New York real estate family. Larry: "We've been in business for over 100 years." Larry and Zach started in Philadelphia, 1926, buying bank building; then Queens apartments over next two decades. Built, ran prime midtown office towers 1960s. Now near 7 million square feet in 5 class A buildings, including Burroughs Bldg., Burlington House, Park Ave. Plaza. Willing to wait years for perfect location to build. Larry: "I don't have to build to build; if the timing is right we will do it. A sensible company does not build just because the bank will loan the money." Played stock market with excess cash 1980s: pocketed about $60 million from runs on Disney, CBS. Larry still denies being Yankees fanatic: "I can't get past the fourth inning in baseball. Football I like." But his box at the Stadium is next to George Steinbrenner's. Despite real estate recession, brothers share estimated $880 million.

Charles Francis Dolan

Cable TV. Oyster Bay, N.Y. 65. Married, 6 children. Raised Cleveland; ran sports newsreel business with wife, wrote commercials, radio scripts; migrated to NYC 1952 to make industrial films. Fascinated with cable TV, began wiring NYC hotels 1960; won Manhattan franchise 1961; founded Home Box Office (HBO) 1970, first nationwide pay channel, to keep viewers tuned in. Sold Manhattan operations to Time 1973 to build Cablevision Systems Corp., now over 1.6 million area subscribers; more on Long Island. Partner in direct broadcast satellite system Sky Cable with NBC, Hughes Communications and News Corp.; startup due 1994. Estimated worth some $440 million.

John Jay Moores

Software. Sugar Land, Tex. 47. Married, 2 children. Married high school sweetheart at 19; they went to law school together. Never practiced. Programming, marketing for IBM 1966-74. Started BMC Software 1980 to create systems software for IBM mainframes. Designed first few products himself. Key to success: "I guess I'm more in touch with my weaknesses or deficiencies than most people. I have an ability to recognize and admire people who are smarter than I am." Went public at $9 in 1988, recently over $50. Revenues rose over 50% 1990, to $93 million. Homes Colo., Calif.; collects vintage Corvettes, Ferraris, Mercedes. His 29%, other assets, worth $440 million.

Charles Allen Jr.
Herbert Allen
Herbert Anthony Allen

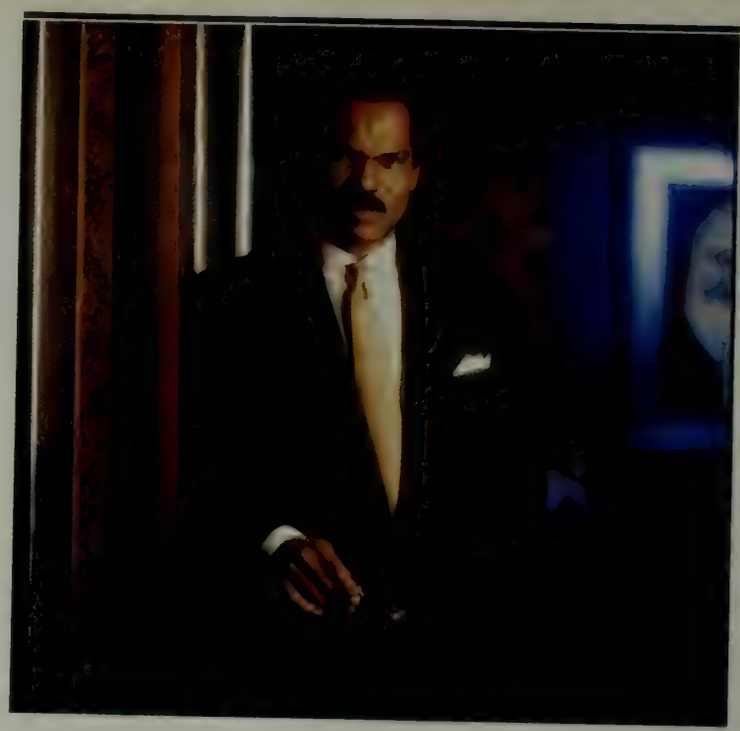
Stock market, real estate. NYC. Charles: 88. Divorced, remarried; 3 children by first wife. Brother Herbert: 83. Widowed, remarried; 2 children. Charlie raised in Manhattan cold-water flat, high school drop-out. With two phones and $1,000, started bond trading age 19. Herbert joined in 1928. Made and lost first million by 1929. Herb's shrewd trading kept firm afloat during Depression. Since 1930s investments in small, unlikely, cheap ventures paid off. Herb yielded $45 million from $3 million investment in Benguet Mining. Charlie's most famous coup: Sunk $1 million in Syntex late 1950s; recently worth over $550 million. Invested heavily with big shot real estate developers A.A. Taubman, NYC's Bernard Mendick, Chicago's Arthur Rubloff. Herb's son, Herbert A.: 50. Divorced, remarried; 4 children. Joined business 1962. Against elders' advice bought 6% Columbia Pictures 1973, made $40 million selling piece to Coca-Cola 1982. Sold rest of shares to Sony for $70 million 1989. Allen & Co. highly secretive, entrepreneurial; partners bill each other for time, advice; Spartan offices, second-hand furniture. Holdings in over 200 companies like Ogden Corp., Hytek Microsystems. Allens' shared fortune estimated about $1.3 billion.

William Wrigley

Chewing gum. Chicago; Lake Geneva, Wis. 58. B.A. Yale. Twice divorced, remarried; 3 children. Grandson of William Wrigley Jr., who in 1890s gave away chewing gum as premium for baking powder purchase. Idea stuck. Founder decided to compete rather than join combination of chewing gum companies; in 1915 mailed stick of gum to everyone in U.S. phone books. Succeeded by son P.K., then grandson William. Today world's largest chewing gum company, in part because William upgraded gum-making machinery (guarded business secret), increasing productivity. William's son being groomed for succession. William's stock worth over $430 million.

John Hammond Krehbiel Sr. and family

Molex, Inc. Lisle, Ill. 85. Widowed, 2 sons. With father and brother, created Molex plastic by mixing coal- and asbestos-processing wastes. Produced small plastic objects (toy guns, etc.); then electrical components. Now major world producer connectors for electronics industry; 142 new products last year. About 70% of $594 million 1990 revenues generated from outside U.S. Sons run company. John Jr.: Lake Forest, Ill. 54. Married, 3 children. President, sees "wonderful opportunities" in Western Europe, explains growth: "We are very much tuned in to our customers." Fred: Hinsdale, Ill. 50. Married, 2 children. CEO. With family, John holds 47% of Molex stock, worth $430 million.



Gregory Heisler

Reginald Lewis
Few if any have done better in 1980s-style thin-equity deals than this Harvard-trained Wall Street lawyer. He put up $1 million for McCall Pattern, then sold it for $80 million more. When he tried to take TLC Beatrice public in 1989, the market balked. So now he runs it, pays down debt, and prospers.

Louis Larrick Ward

Russell Stover Candies. Kansas City, Mo. 71. Married, 3 children. Stanford, WWII Navy; bought small paper box company 1950. One customer, Russell Stover: "There are only so many ways you can put chocolate, butter, cream, eggs, milk, fruit and nuts together—the real competition is in finding different kinds of packaging." Bought control Stover 1960 for $7.5 million, took public same year; took private 1981. Relied on point of sale, word of mouth. Insisted on quality, attractive packaging. Also modern plants, low-cost labor. Now largest boxed-candy producer, big on East Coast. "Keep going forward, but keep your eye on the company in the rearview mirror." Net worth estimated $425 million.

Robert Levine ★ Craig Benson ★

Computer networks. Levine: Stratham, N.H. 33. Married, 1 child. Voted least likely to succeed in high school. U. of Miami B.S. 1981 (2.1 grade point average). Endeavoring to make fortune, tried different businesses; some earned more debt than dollars. Benson: Rochester, N.H. 36. Married, 2 daughters. M.B.A. under belt, managed high-tech stock rooms. As electronics manufacturer's reps, both inspired to new try: cofounded Cabletron Systems in Levine's garage 1983; Benson attached connectors to odd lengths of cable bought from former client, Levine lifted them onto truck. Could deliver networking products in 1 day; competitors took 8 weeks. Hit PC-linking boom just right, went public 1989, now a leading Local Area Network (LAN) firm. Benson: "The higher you go up, the farther it is to look down." Levine's shares recently $425 million ("I hate it when people are better than me"), Benson's $345 million ("I have better suits now").

Amory Houghton Jr. ★

Corning, N.Y. 65. Married, 4 children. Fifth-generation descendant of Amory Houghton, who founded Corning Glass Works 1851. Made first glass bulbs for Thomas Edison 1879. Later, Pyrex (1915), silicone (early 1930s), fiberglass (1935), commercial TV picture tube (1948), optical fibers (late 1960s). Amory Jr.: 2 years in Marines, then went for 2 Harvard degrees, then 36 years as Corning executive. Left 1986 to be congressman (R–N.Y.), reelected twice; took himself out of New York governor's race. Brother Jamie, 55, now runs the company, reorganizing and reviving family prize. Houghtons control 14.4%; Amory's 6.9% recently worth $420 million: "What we need are businessmen."

Robert Lee Moody and family

American National Insurance. Galveston, Tex. 56. Divorced, remarried; 4 children, 4 stepchildren. Great-grandfather William Lewis Moody started cotton, banking business 1860s. William Jr. launched ANI 1903. Company blossomed with help of Texas insurance laws encouraging non-Texan insurers to leave, or not enter. Empire grew, added newspapers, hotel chain, ranch land. William Jr. died 1954, divided fortune between foundation and family trust; legal battles followed. Robert bought 51% Moody National Bank from foundation 1979, controls family trust with 35% ANI. Brother Shearn Jr. jailed for mail fraud 1987; conviction overturned. Robert controls fortune estimated over $420 million.

Lucille Carver

Inheritance. Bandag, Inc. Muscatine, Iowa. 74. Widow; 3 sons by Roy James Carver (d. 1981), who acquired rights to tire retread process discovered 1957 on trip to Germany. "Bandag" method uses "cold bonding" as opposed to more traditional "hot cap" process, resulting in long-

Who offers your employees more choices in retirement plans?

...aring treads. Now world's largest supplier precured tread rubber (1990 sales, $586 million); 13% margins. Youngest son Martin, 43, chairman since father's death, now CEO. "We are not one of the companies that spend all their time looking for deals; we try to run our business." Brother Roy Jr., 47, owns Carver Pump Co. (dad's original business). Mother Lucille has biggest chunk Bandag, worth over $420 million.

Morris Dabah and family ★

Manufacturing. NYC. 66. Married; 3 sons, 1 daughter. Emigrated from Israel. Launched small import firm 1971; introduced Gitano brand women's clothing 1977. First, denims for the young and nubile, sold in discount stores like Wal-Mart, Kmart and Target (still 40% of company's $800 million sales). Looked to add department and specialty stores, change image; acquired Gloria Vanderbilt women's clothing line for $15 million 1988; separately, family bought Children's Place apparel retailer 1989. Ads strive for wholesome family image but some still have sultry models. With family, owns some 69% of Gitano common stock; also real estate. Morris chairman, CEO; sons Haim, Ezra, Isaac officers. Shares recently worth $420 million.

Howard Butcher Hillman
Tatnall Lea Hillman

Inheritance. So-called robber baron John Hartwell Hillman Jr. adopted both when he married Dora Keen Butcher (divorced 1982); stepbrothers of Henry Hillman *(which see)*. John Hartwell created huge industrial empire of coal mines, blast furnaces, iron ore brokerage, banks, real estate, etc. Left adopted sons one-third Hillman Co., Henry bought some of portion; brothers currently hold 20% of now diversified $4 billion empire led by Henry. Howard: Greenwich, Conn. 57. Married, 2 children. Majored economics, Princeton 1956. Navy. Harvard M.B.A. 1960. Stint at Chemical Bank, in which family once had large interest. Venture capitalist, invests through Taconic Group. Tatnall: Radnor, Pa. 53. Divorced, 4 children. Majored biology, Princeton 1959. Navy. Taught science Princeton Day School; now self-employed computer programmer/analyst. Supports conservative causes. Brothers' share of Hillman fortune estimated $415 million each.

Jerome Spiegel Kohlberg Jr.

Leveraged buyouts. Mt. Kisco, N.Y. 66. Married, 4 children. New York-born lawyer, Harvard M.B.A. Left Bear, Stearns to found KKR 1976 with Kravis, Roberts *(which see)*: bought undervalued companies using massive debt, motivated managers with part ownership; multiplied value. First Big Board buyout: Houdaille Industries for $370 million 1979. First $1 billion deal: Wometco 1984. Many more. "Patriarch," mentor of firm; split with Kravis, et al. In 1987 opposed hostile takeovers, too-high prices. Still limited partner in some KKR deals but major source for recent anti-KKR book, *The Money Machine*; Kohlberg's lawsuit for greater share profits dropped 1990. Jerry estimated at least $400 million.

Samuel Zell

Real estate, investments. Chicago. 50. Married, 3 children. With U. Michigan frat brother Robert H. Lurie (d. 1990 of cancer) bought up troubled Sunbelt, Midwest properties, rehabbed for fraction of new construction cost, sold some for big gains; bought more. Applied turnaround strategy to companies: notably Itel (now largest U.S. railcar lessor); also 15% stake Santa Fe Pacific. Financing "vulture fund" for real estate and corporate workouts with $1 billion equity: "Leverage was the beverage that got this party cookin'; but the hangover's set in, and now a Gravedancer's lookin'." Gravedancer-bad-poet Zell manages empire worth over $800 million; split with Lurie's wife, 6 young children.

Robert Edward Rich Sr.

Cream substitute. Point Abino, Ont.; Palm Beach, Fla.; Buffalo, N.Y. 78. Married, 3 children. Bought own milk company 1935 after learning business from family's dairy company. Pioneered cheap, soybean-based frozen whipping cream, saying, "The cow is a very inefficient factory." Built niche markets: Coffee Rich creamer 1960. Sales recently $820 million, mostly to food service industry; expanding internationally—Australia, Mexico, Hong Kong. Son Robert Jr., 50, president, pushing for innovations in food preparation. Company owns Buffalo Bisons, only minor league team to attract million fans 2 consecutive seasons. Rich, with family, estimated at least $400 million.

James Elsworth Davis

Winn-Dixie Stores. Jacksonville, Fla. 84. Married, 2 children. One of 4 sons of William Milton Davis, who had Idaho general store. Bought Rockmoor grocery store in Lemon City, Fla. 1925 for $10,000. Grew through acquisitions to 34 stores by 1934, then known as the Table Supply Stores. James quit college to help with business, 3 brothers also in company. Listed NYSE 1952. Became Winn-Dixie 1955 through series of mergers, acquisitions: "To win Dixie was our ambition." One of biggest nonunion grocers in U.S. James chairman to 1983. One of 20 initial investors American Heritage Life Investment Corp. 1956, chairman to 1986, now vice chairman. Owns Florida game preserve with buffalo. His stock, other assets estimated $400 million.

Roy Michael Huffington

Oil. Houston. 73. Married, 2 children. Geology Ph.D. Harvard; rose to chief Gulf Coast geologist Humble Oil (now Exxon). Abandoned safe corporate womb to prospect oil 1956; moderate success for 12 years. Then Indonesian geology reminded him of southern Louisiana. Took terms majors wouldn't accept, remained operator; major gusher 1972 made mere 17% worthwhile. Quietly acquired equivalent of 11 blocks downtown Houston 1980s. Sold out oil, gas and real estate to Chinese Petroleum Corp. 1990 for about $600 million. Sued to reverse transaction, charged Taiwanese shortchanging; opponents said he wanted to renege because assets now worth $200 million more.

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...e to date; Roy refunded $7.8 million of the $25.5 million CPC paid for Huffington's net liquid assets. Currently ambassador to Austria. After capital gains tax, worth at least $400 million.

Harry Howard Hoiles
Mary Jane Hoiles Hardie

Publishing. Brother and sister; children of Raymond C. Hoiles (d. 1970), $2-a-week printer's assistant who bought Bucyrus (Ohio) Telegram-Forum 1927, Santa Ana Register 1935. Freedom Newspapers now 27 dailies, 17 weeklies (sold 10 weeklies to Thomson Newspapers this year), 5 TV stations and OCN, 24-hour Orange County (Calif.) news channel. Used papers to spread libertarian philosophy; opposed taxes, public schools, etc.; escaped 2 bombing attempts. Chose name "because freedom will live forever and the Hoiles name will be forgotten in a short time." Descendants doing best to attain obscurity. Three children inherited; son Clarence headed company until 1981 death led to family dispute. Harry: Santa Ana, Calif. 75. Married, 3 children. Sued for control of Freedom 1982, offered to buy outright for $1.01 billion 1985. Mary Jane: Marysville, Calif. 69. Married, 4 children. Husband Robert Hardie: chairman. Hardie family and Clarence's heirs unwilling to sell or split up chain. Three branches share company; worth estimated $400 million each. "Nobody can hate each other the way a family can."

Charles Cassius Gates Jr. and family

Gates Corp. Denver. 70. Married, 2 children. Charles Sr. owned business that sold tire covers in 1911. Charles Sr.'s brother invented V-belt 1917; company became leading producer. Dad delivered Charles Jr. in back of family car en route to hospital. After inheriting in 1961 with 4 sisters, Stanford-educated engineer opted to diversify; slashed tire divisions. Bought unprofitable Learjet Inc., turned it around: sold 65% for $57 million 1987. Like company, Gates very private. Rubber accounted for 80% of $1.3 billion 1990 sales. "We have an 80-year relationship with vehicles." Carried on family tradition: still leads world in belts and hoses. With other investments, worth $400 million.

Fred Ward/Black Star

Katharine Graham

After taking over when her husband died in 1963, she ruled the Washington Post like the mistress of a castle. Since 1982 shares have risen sixfold, adding much to friend Warren Buffett's wealth. Son Donald now CEO, and she retired her top editor. She remains chairwoman.

Alpheus Lee Ellis

Banking, real estate. Tarpon Springs, Fla. 85. Widowed; 1 daughter, 3 granddaughters. Got first banking job 1920 cleaning spittoons for $8 a week in father's bank. Worked way up. Bought first bank 1943. Slowly acquired, with wife, 15 Florida banks, formed Ellis Banking Corp. 1972. Merged with NCNB 1984 for 4 million shares (still largest individual shareholder) plus lifetime guarantee of job, car and driver, personal secretary, office. Also acquired West Florida real estate estimated at over $80 million. Still works 6 days a week. "I don't do anything but work. I used to play golf. I made a hole in one once so I quit." No debt. "I don't owe anyone a thing." Worth some $400 million.

William Edward Maritz and family

Maritz Inc. St. Louis. 62. Divorced, 4 children. Grandfather Edward F. Maritz began making watches 1894. Father James, to boost faltering Depression sales, convinced businesses to use watches as employee performance incentives. Soon abandoned watches, focused on selling motivation services; Bill became chairman, CEO, president, 1983. Now sells performance improvement to Forbes 500 corporations, including IBM, big three automakers. Also, travel services to companies; outgrowth of incentives business. Fiscal 1991 revenues $1.84 billion. William (and sister) control 100% of voting stock. In a weak economy company estimated at $400 million or more. "We don't toot our horn, that's not our style."

John Thomas Lupton
Elizabeth Lupton Davenport

Brother and sister. Coca-Cola bottling. Grandfather John T. (d. 1933) got right to distribute Coca-Cola 1899. Used part of patent medicine fortune to finance first Coke bottling plants. Father Thomas Cartter bought, sold Coke franchises at frantic pace. John: Lookout Mountain, Tenn. 65. Married, 4 children. Started as bottle washer; ran family firm (JTL) from father's death 1977. Former Coca-Cola board member (to 1983), sold JTL to Coke 1986 for $1.4 billion. After JTL sale John netted estimated $325 million. Involved in local projects, including River City Co., estimated $750 million revamping of downtown Chattanooga. "Jack is very outspoken on anything he believes in." Sister Elizabeth: Lookout Mountain. 58. Divorced, remarried; 3 children. Her share similar to John's; pair now estimated at $800 million total.

Sheldon Henry Solow

Real estate. NYC. 63. Married, 2 sons. Small-time builder sank everything into putting up landmark Manhattan skyscraper 1972. "We're in barracuda land. You can only get away with this

once." 9 West 57th Street: 1.5 million square feet, catchy architecture (sloping sides, big red "9" on sidewalk), prime location, great views said to fetch highest New York City office rents. Worth about $400 million: "It's the kind of building the Japanese would love." Also invested in other New York City office space and luxury apartments. Skilled dealmaker; history of litigiousness. Net worth estimate down 20% from last year, to $400 million.

Mark Les Goodson

Game shows. NYC, Beverly Hills. 76. Thrice divorced, 3 children. Son of Russian immigrant who opened first health-food store in Berkeley. Mike-fright ended radio announcer hopes; produced radio soaps. With partner Bill Todman (d. 1979) did game shows 1940s. Entered television 1950 with *What's My Line?*: "I gave it 10 weeks." Later, *I've Got a Secret, The Price Is Right, Password, Family Feud,* etc., etc. Profits plowed into newspapers—now 8 dailies, 23 weeklies, mostly suburban. Managed by Ralph Ingersoll Sr. and son for 3 decades; acrimonious breakup 1989. Goodson untouched by Ingersoll's junk bond woes. "I know that I have money, but I don't feel rich." Not even at estimated $400 million.

Guilford Glazer

Real estate. Beverly Hills. 70. Divorced, remarried; 2 children. Worked in father's welding shop Knoxville, Tenn.; George Washington and University of Louisville; Navy World War II. Expanded family business; launched building career 1950 with apartment building for widowed mother. Shopping center 1954 Oak Ridge, Tenn., sold 1989 for $45 million. Other centers built, then sold in Ohio, W.Va., Pa. Moved to Los Angeles for climate, opportunities; opened largest U.S. mall, LA's Del Amo Fashion Center, 3 million square feet, 1971: "The way a businessman works is that he takes a deep breath and jumps into the river and believes he will swim to the other side because he must." Active U.S./Israeli political affairs. Estimated $400 million.

Fitz Eugene Dixon

Inheritance. Lafayette Hill, Pa.; Palm Beach, Fla.; Winter Harbor, Me. 68. Married; 1 son, 1 daughter. Primary heir of 2 great-grandfathers: streetcar magnate P.A.B. Widener (d. 1915; reportedly worth $100 million), William Elkins (d. 1903; reputedly $30 million). Harvard dropout, taught 16 years at his prep school, Episcopal Academy, "the happiest days of my life." Philanthropist, especially medicine, education. Fortune mostly blue-chip stocks, bonds; owns most of Grindstone Neck, Me., faded resort where he was born. Owns 10% Philadelphia (baseball) Phillies. Wears emerald ring grandfather George (d. 1912 *Titanic*) gave to wife as she stepped into lifeboat. Estimated worth at least $400 million.

Joe Lewis Allbritton

Broadcasting, banking, insurance, publishing. Washington, D.C., Houston. 66. Married, 1 son. Native of D'Lo ("Damn Low"), Miss., son of Houston cafe owner. Made first million founding Texas S&L, buying and selling land in path of expansion. Bought Washington Star 1974, sold 1978 for small profit. "Timing has always been one of my best talents." Media properties worth $350 million. WJLA-TV in D.C. alone worth $275 million. Also 4 other TV stations, small newspaper. Reputation for toughness. Took over "blue blood" Riggs National Bank 1981 in semihostile maneuver. Controls some 5 million shares. Also small insurance company interest. Net worth estimated $400 million.

Thomas Stephen Monaghan

Domino's Pizza. Ann Arbor, Mich. 54. Married, 4 daughters. Fatherless at age 4, mother put Tom, younger brother Jim in Catholic orphanage. Studied for priesthood, expelled from seminary. Marines. U. of Michigan dropout. With brother, bought pizza parlor for $500 in 1960. Traded VW to buy out Jim. By 1989 Domino's sales $2.5 billion, 5,100 stores worldwide, built on "30-minute delivery." Tried to sell; no buyers. Claims religious renewal: "I had my high-rolling days. I hope I am maturing. . . . I've been working on cutting back on luxuries. I haven't bought any Frank Lloyd Wright artifacts in a long while." Owns Detroit (baseball) Tigers, etc. Funds a Honduran missionary, gave large sums to antiabortion groups. Net worth estimated some $400 million.

Richard T. Farmer ★

Cintas Corp. Indian Hill, Ohio. 56. Married; 3 children, 5 grandchildren. Miami U. (Ohio); Marine Corps 1957. Grandson of "Doc" Farmer, who founded shop 1929 to supply factory wiping materials. Father Hershell (d. 1973) eventually took over. Says Richard: "When I got here, it was a small business, and I didn't want anything to do with it, and my dad and I started to argue, and he finally said 'Here, you run the thing.'" Richard then 23. Viewed wipers as dead end, refocused on making workers' uniforms. Found eager market for one-stop service: fitting, cleaning, customizing, etc. Latest expansion: shoes, goggles, hard hats. Big donor to alma mater (business school named for him). Golf (14 handicap); hunting, fishing. Shares, etc. worth at least $395 million.

Bernard F. Brennan

Montgomery Ward. Winnetka, Ill. 53. Married, 3 children. Middle-class upbringing Oak Park, Ill. Dad and uncles Sears employees. Joined older brother Edward at Sears 1964 (Ed now Sears chairman). Quit 1976 for small Florida retailing distributor; elbowed aside founder, chief executive, became chairman 1979. Reputation as "hard-driving, decisive and an excellent retailing executive." Head of store operations at faltering Montgomery Ward 1982, left 1983 after clash with boss. Next, chief executive Household Merchandising. Back to Ward, languishing as Mobil subsidiary, as president 1985, now chairman and chief executive. Turnaround: redesigned stores, cut costs, tripled profits. Led $3.8 billion leveraged buyout with GE Capital 1988; his 30% worth estimated $390 million.

Jack N. Mandel
Joseph C. Mandel
Morton L. Mandel

Brothers. Premier Industrial Corp. Jack: Shaker Heights, Ohio. 79. Married, childless. Joseph: Lyndhurst, Ohio. 77. Married, 2 daughters. Morton: Shaker Heights. 70. Married, 3 children; dropped out of college at 19. Brothers pooled $900 to buy auto parts store from uncle 1940. Soon specialized in hard-to-find nuts, bolts, etc.; commanded premium prices from grateful customers. Went public 1960; Jack and Joe in charge of marketing; Mort, chairman and CEO. Company has sacrificed speedy growth to serve small buyers wanting obscure products. Fanatics about customer service: 95% of orders shipped within 24 hours. "Customer service is easy to say. It's very hard to do." Mandel philosophy has paid off handsomely: 1991 sales $637 million, net margins near 12%. Nation's leading distributor electronic components. Brothers' 66%, other assets, worth almost $1.2 billion.

DeWayne B. Reinhart

Wholesale food. La Crosse, Wis. 71. Married, 4 children. Three years at Superior State Teachers College (Wis.) interrupted by WWII Army Air Corps. Postwar, sales manager wholesale grocer. With partner David Nudd picked up nearly $3 million (sales) Gateway Foods 1956. Expanded, added IGA supermarkets, bought out Nudd 1979. Stayed private, safe from takeovers, stockholder pressures; strong employee incentive plans. Built to $2.3 billion sales. Sold Gateway 1989 to Scrivner (American arm of Germany's Franz Haniel & Cie). Still has businesses to tend: Reinhart Institutional Foods, Reinhart Investments, real estate ("little playthings to keep me busy"); children involved in each. Net worth estimated at least $390 million.

Seymour Cohn

Real estate. Palm Beach County, Fla. 81. Widowed, 2 children. Great-grandparents left Germany, settled NYC 1860s. Tried real estate, found familial calling. Seymour quit Rutgers 1931, joined family firm. Younger brother, Sylvan Lawrence *(see family)*, joined him 1946; firm put in Sylvan's name for good luck. Seems to have worked: Took chances—bought risky properties that lost in short term but gained in long term. Like old Port Authority Building for $26 million 1973; now worth over $100 million. Brothers controlled some 120 buildings mid-1970s. Since Sylvan's death 1981, sold properties worth nearly $800 million. Seymour's half of fortune estimated at least $390 million.

Charles C. Butt

Supermarkets. San Antonio. 53. Single. Baptist grandmother started small grocery Kerrville, Tex. 1905, family lived upstairs. Son Howard (d. 1991) renamed chain H.E. Butt Grocery 1935, chairman to 1984. Today HEB Foods. Grandson Charles bagged groceries age 8. B.S., economics, Wharton 1959. Brother Howard Jr. on board, runs HEB Foundation; pursues "interdenominational calling." Sales last year $2.9 billion; one of nation's largest privately owned supermarket chains; 174 stores, 32,000 employees. Successful competitor against Kroger, Albertson's *(which see)*. Sign in office: "The price to stay is always equal to or greater than the price you paid to get there." Charles very private, demands loyalty. Owns 100%, believed worth some $380 million.

Irénée du Pont Jr.
Irene Sophie du Pont May
Constance Simmons du Pont Darden
Eleanor Francis du Pont Rust
Mariana du Pont Silliman
Octavia Mary du Pont Bredin
Lucile du Pont Flint
and families

Brother and sisters. Inheritance. Children of Irénée Sr. (d. 1963), president Du Pont Co. 1919-26 *(see family)*. Irénée Jr.: Montchanin, Del. 71. Married, 5 children. With Du Pont Co. 32 years, retired as senior VP 1978; left board 1990; still on boards Wilmington Trust, Longwood Foundation. Oversaw merger Christiana Securities with Du Pont 1977, which effectively ended traditional family control of company. Irene Sophie

UPI/Bettmann

UPI/Bettmann

Our man in Havana: Robert Vesco, before his deportation from Costa Rica and resurfacing in Cuba

What a résumé. After the onetime auto mechanic and his henchmen embezzled $224 million from Investors Overseas Services in the early 1970s, Vesco gave $200,000 cash to Richard Nixon's 1972 campaign; fled to Costa Rica, spending lavishly to convince officials to let him stay; skipped to the Bahamas; rumors abounded that he was involved in drug smuggling. He now lives—modestly, it is said—in Cuba.

(Mrs. Ernest May): Wilmington, Del. 90. Widowed, 4 children. Constance Simmons (Mrs. Colgate W. Darden Jr.): Norfolk, Va. 87. Widowed, 3 children. Husband (d. 1981) governor Va. 1942-46. Eleanor Francis (Mrs. Philip Gordon Rust): Thomasville, Ga. 84. Married, 4 children. Mariana (Mrs. Henry Harper Silliman): Hagley, Montchanin, Del. 80. Married, 6 children. Octavia Mary (Mrs. John Bruce Bredin): Greenville, Del. 78. Married, 6 children. Lucile Evelina (Mrs. Robert Baronet Flint): Greenville. 76. Married, 5 children. Seventh sister Margaretta Lammot (Mrs. Crawford H. Greenewalt) died 1991, leaving millions in land to nature society in Greenville, Del., rest to husband (president Du Pont 1948-62) and 3 children. These 7 surviving siblings and families have fortunes, much in trusts, estimated at least $375 million apiece.

Jack Crawford Taylor

Enterprise Rent-a-Car. St. Louis. 69. Divorced, remarried; 2 children. Joined Navy to avoid finishing college. Car salesman, then sales manager for Cadillac dealer; started own leasing business with financial backing from boss; took 50% pay cut. Early 1960s, pioneered insurance replacement rentals for wrecked cars, now 75% of his rental business. Expanded nationally 1970s, starting with South. Avoids large players at brutally competitive airports, likes residential areas; sidelines in candies, coffeemakers, etc. 10% of sales. Son Andy president, forecasts $1 billion revenue, near 20% growth, in all major cities by 1994. Jack's 80% estimated $365 million.

Carl Clement Landegger
George Francis Landegger

Inherited. NYC, Conn. Father Karl bought Austrian paper mill 1920s. To U.S. 1940 with $40,000 to escape Hitler. Bought two private companies: Parsons & Whittemore, small pulp trading firm, now holding company, leading worldwide pulp and paper producer; also share in Black-Clawson, paper machinery manufacturer. Died 1976, Carl and George inherited, wholly own, run companies. Parsons currently building $700 million pulp mill Alabama. George: "We will therefore become the largest market paper-pulp producer and seller in the world." Explains: "We're pretty bullish." Two companies leaders in preparing for recycling boom. Carl: "Everybody has decided they must recycle. The fifth-biggest industry is being pushed into restructuring." Carl: 61. Divorced, remarried; 3 of 6 children in family business. Runs Black-Clawson's worldwide operations. George: 55. Divorced, remarried, 5 children. Runs North American pulp mills. Brothers share fortune worth $730 million.

Anne Catherine Getty Earhart
Caroline Marie Getty
Claire Eugenia Getty Perry

Daughters of George Getty (d. 1957), son of renowned oilman Jean Paul Getty; collectively know as "Georgettes" by family. Inheritance. Anne: Irvine, Calif. area. 39. Married, 2 children. Began squabble over half-uncle Gordon's *(which see)* control of Sarah C. Getty Trust, then backbone of Getty family fortune; also disliked handling of Getty Oil; married to former Peace Corps volunteer. Claire: 37. San Francisco Bay area. Also married to former Peace Corps man; 4 sons. Amid initial Getty-Pennzoil deal, petitioned California judge, got temporary restraining order giving Bruce Wasserstein chance to bring in Texaco; resulted in Getty oil sale. Caroline: 34. San Francisco. Single. Active in preserving wildlife, environment. All very private, not into social scene. Share portion of Getty fortune estimated $1.1 billion.

John Arrillaga
Richard Taylor Peery

Partners. Real estate. Palo Alto, Calif. John: 53. Married; 1 son, 1 daughter. Son of spud farmer; Stanford hoops scholarship; real estate salesman (1957-67) southern Calif. Richard: 51. Married; 3 sons, 1 daughter. Son of Bank of America honcho; Stanford business school; took job managing Dad's ragtag Bay Area real estate. Impressed by John's dealmaking prowess, teamed up 1967. John the outside man, Richard monitors the bottom line; colleague calls them "toughest businessmen I've ever dealt with." Expanded property holdings with help of easy Bank of America financing. Hot to develop, began buying fruit farms cheap: pair now secretive lords Silicon Valley, with nearly 10 million sq. ft. of R&D space; known to accept tenant company stock in lieu of rent. Moving into golden town of Sacramento, but stalled by city's unwillingness to rezone for them. Dynamic duo live 2 blocks apart; John fanatic gardener, Dick avid outdoorsman, devout Mormon. Together, estimated worth some $730 million, assuming reputation for current low leverage justified.

Lawrence J. Ellison

Oracle Systems. Atherton, Calif. 47. Divorced, childless. Dropped out of U. of Illinois and U. of Chicago. Helped develop first IBM-compatible mainframe, at Amdahl. Worked on computer mass storage at Ampex, 1973-75. Founded Oracle, software supplier, 1977 with $2,000. Shot to top of market by adapting programs to wide variety of computer brands and sizes. Phenomenal sales boom: 1981, $1 million; 1990, $971 million. But Ellison's philosophy of maximizing growth bumped things like management and quality of earnings to back burner, prompting last year's stock collapse. "We had to get hit upside the head with a 2-by-4." In search of reform, has replaced many top employees. Holds 26% of Oracle, back up to $365 million.

Dean Stanley Lesher

Newspapers. Orinda, Calif. 89. Married, 3 children; 2 daughters in business. Son of Williamsport, Md. physician. U. of Maryland, Harvard Law. Trial lawyer 14 years. Represented newspaper clients who "seemed to be doing exceptionally well. I thought the Lord was pointing a flaming finger in my direction to say even you can do well at that." Moved to Calif., consulted with newspaper broker, bought first paper there March 1941. Then, WWII newsprint shortage; "I

sat there and bawled like a baby." Beneficent banker kept afloat with loan. From nadir built slowly to 8 dailies, 18 weeklies. Lord's flaming finger sent dramatic growth to his territory: over 350,000 circ. northeast of Bay Area, worth estimated $360 million.

Jane B. Engelhard

Inheritance. Far Hills, N.J. 73. Twice widowed, 5 daughters. Left war-torn Europe for Buenos Aires with "nothing but our passports and our personal belongings." Second husband, "Platinum King" Charles Engelhard Jr., built $300 million estate from precious metals business; pals with 007-writer Ian Fleming, was prototype for Goldfinger character. With Jane, jet-setted among numerous houses worldwide; Charles died 1971. Jane retired socialite, entertains discreetly in N.J. home, Cragwood. Collects rare books, documents, owns original proclamation of Louisiana Purchase, signed by Thomas Jefferson. Very quiet. Fortune, prudently invested, could by now exceed $360 million.

Michael L. Abramson/Woodfin Camp

Steve Jobs trying for his Next winner
After being pushed out of Apple and selling $133 million in stock, Jobs is trying to score again with Next, a workstation aimed at colleges and businesses (first-half 1991 revenues, $70 million).

David Theodore Chase

Real estate, media, investments. W. Hartford, Conn. 62. Married; 1 son, 1 daughter. Born David Ciesla, Kielce, Poland; survived 3 years Auschwitz, other camps; lost parents, sister to Nazis. To U.S. 1946 speaking 6 languages. Door-to-door salesman, then small-time contractor; made first million age 27 forming discount department store. Early project: monuments honoring parents. Developed shopping centers late 1950s; office tower 1972, more early 1980s. Branched into TV, radio, etc.; plans Polish fiber-optic cable TV, telephone system: "I guess deep down I always wanted to go back." Daughter Cheryl chief counsel, son Arnold, son-in-law Roger Freedman exec. vice presidents. About $100 million to each child. Worth estimated $355 million.

Robert William Galvin

Motorola. Barrington Hills, Ill. 69. Married, 4 children. Son of Paul, who founded Galvin Mfg. Corp. 1928 with $565. Made radios; walkie-talkies during WWII. Later, TVs, police radios. Paul died 1959. Robert groomed for business all his life. "The prototype of the professional manager," sold off traditional products, moved to forefront of radio, data communications. In 1970s-80s made Motorola largest U.S. semiconductor maker, world's leader cellular phones. Chairman Sematech, government microchip project to advance U.S. electronics industry; stepped down as Motorola chairman Jan. 1990. Left door open for third-generation Galvin: son Chris, now senior executive vice president. Motorola shares, etc. estimated $355 million.

Jesse Mack Robinson

Banking. Atlanta. 68. Married, 2 daughters. College dropout, used-car salesman, built chain of auto finance companies. Financed Yves Saint Laurent 1960; sold 1966 for $1 million. "One doesn't always keep the right things." Bought or opened 22 banks, including interest in First Wachovia. Often only banks around. Miniconglomerator: lumber mills, billboards, insurance, waste management. "I have made a lot of people millionaires." Heart attack 1986 prompted slow sale of businesses. "I keep changing my share in companies day to day." Horse breeder, golfer. Hopes to keep business in family. Estimated worth at least $355 million: "That list has caused me no end of problems."

Lewis Robert Wasserman

MCA, Inc. Palm Springs and Beverly Hills. 78. Married, 1 daughter. Hustled candy in Cleveland movie theater until MCA founder Jules Stein took on as band booker 1936; soon represented stars: Jimmy Stewart, Alfred Hitchcock; also Ronald Reagan. At 33, heir to MCA presidency, promulgator of famous MCA dark suit dress code. Acquired Universal Studios 1962, divested talent agency after antitrust suit by Robert Kennedy. Later, more acquisitions: Geffen Records, 49% of Cineplex Odeon. Sold MCA to Matsushita Electric early 1991 (minus NYC TV station); concocted lavish salary contract and tax-free MCA share conversion scheme: "Last of the larger-than-life movie moguls." Estimated worth over $350 million.

Richard Rainwater

Investments. Fort Worth. 47. Married, 3 children; reported near divorce. Son of middle-class Lebanese-Cherokee wholesaler. Math and physics major U. of Texas, then Stanford business school where met Sid Bass *(which see)*. Joined Sid to run $50 million Bass family fortune 1970. "I've played as many positions in the investment world as there are to play." Left 1986 to run own sizable portfolio: $5 billion LBO Hospital Corp. of America, oil deals. Last year snatched up Penrod Drilling from bankrupt Hunt brothers. His natural gas company Wolverine Exploration in doldrums. "You can give it a value of zero." Still, net worth believed around $350 million. "I'm just grateful I'm about where I was last year."

Harry Lebensfeld

UIS, Inc. NYC. 87. Separated, 1 daughter. Founded United Industries Syndicate 1945, now UIS. First acquisi-

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tion: small desk manufacturer, Shelbyville, Inc. Eventually assembled 15 companies, some turnarounds—Necco wafers, millwork wholesale supply, auto parts—but says has preference for keeping management. Revenues 1990 nearly $620 million. Invests for long term; still chairman, chief executive officer. Lean operation with 15 employees in NYC headquarters. Company owned through trust for daughter and grandchildren; daughter married to Richard Pasculana, executive vice president. Despite auto parts slump, estimated net worth $350 million. Lebensfeld: "If something seems to work, it makes sense to keep on doing it."

Arnold Newman

Lila Wallace, philanthropist
Her husband, Reader's Digest cofounder DeWitt, died in 1981, the year before the first Forbes Four Hundred, but she was on this list until her death in 1984. Her cultural benefactions were imaginative: the Bronx Zoo's World of Birds building, fresh flowers weekly for the entrance of New York's Metropolitan Museum, refurbishing Claude Monet's gardens at Giverny, and many more.

Susan Thompson Buffett ★

Marriage. San Francisco, Omaha. 59. Married to Warren Buffett *(which see);* 3 children. Daughter of Omaha educator. Her parents knew Warren's; met husband-to-be when she roomed with Warren's sister at Northwestern. She dropped out, they wed 1952. Heavily involved in civil rights movement; couple became Democrats; "It caused a great commotion" in family. Today sees Warren about once a month. Warren: "It works well this way. She sort of roams; she's a free spirit." Son: "She brought [my father] out of his shell." President Buffett Foundation: millions to family planning. Her shares Berkshire Hathaway worth over $350 million; Warren says he plans eventually to leave his fortune to the foundation: "Preserves the most flexibility in terms of any future changes in laws."

Eugene Paul (J. Paul Jr.) Getty

Inheritance. London. 59. Divorced, widowed; 4 children with first wife, 1 by second. Third son of late oil baron Jean Paul Getty *(see Gordon Getty).* Got into Sixties counterculture, drugs. Series of misfortunes: Divorced 1965; married Dutch actress 1966. Couple became addicts, she died of heroin overdose 1971. Their son Tara Gabriel Galaxy Gramaphone now 23. Reportedly seeking movie career. Namesake son from first marriage kidnapped 1973; ear cut off before grandfather would pay ransom; had stroke age 25 from overdose alcohol, drugs: now blind, paralyzed. Court forced J. Paul Jr. to pay doctor bills. Now a recluse. His share of Getty family fortune is estimated at $350 million.

Stanley Irving Stahl

Real estate. NYC. 67. Divorced, remarried; 1 son, 2 stepchildren. Son of Brooklyn butcher. NYU. Began as broker 1947, bought first Manhattan apartment building with commissions 1948; added more. Tough landlord. Staked everything 1962 to build 1.7-million-square-foot office building at 277 Park Avenue: "He didn't have any money at the time. It was all done with mirrors." Now backer Chemical Bank rents 800,000 sq. ft. But with Chemical-Manny Hanny merger, Chemical most likely won't be tenant after 1994. Also interest in several NYC office buildings, 3,000 apartments (not co-oping: "too much of a hassle"). Acquired Apple Bancorp Inc. for $121 million in hostile takeover. Estimated $350 million; spokesman claims $500 million.

Claude (Doc) Pennington and family

Oil, gas. Baton Rouge, La. 91. Married; only son killed in oil rig accident 1958, 3 grandchildren. Labored summers in Louisiana oilfields. Joined father's medical practice 1925 as optometrist; closed clinic day after father's death; returned to oilfields. On leased land, made first known oil discovery east of Atchafalaya River; founded Pennington Oil; traded leases, bought Port Hudson properties mid-1950s, began drilling 1970s. Local banks' favorite depositor: over $100 million. Nutrition enthusiast, donated $125 million to LSU for nutrition center; ardent believer in powers of peanut oil, vitamins E and C: "Someday I'm going to be an old man. I'd like for science to know how to prolong my health." Believed worth $350 million.

Alexis Felix du Pont Jr. Alice Francis du Pont Mills and families

Brother, sister. Children of A. Felix du Pont, distant cousin to Pierre, sided with him in family split 1915, rewarded with stake in family holding company Christiana Securities; died 1948. A. Felix Jr.: Wilmington, Del. 85. Divorced, remarried; 3 children by first wife, 1 by second. Alice (Mrs. James Paul Mills): Middleburg, Va. 78. Married, 3 children. Each branch has trusts, etc., believed worth $350 million or more. Third branch: widow, children of brother Richard, noted pilot killed in WWII glider crash. Widow Allaire successful horse breeder ("When you own a great horse, it

doesn't belong to you, it belongs to the public"); among first women admitted to Jockey Club 1983.

Joseph Dahr Jamail Jr.

"Sore-back lawyer." Houston. 65. Married, 3 sons. Started in D.A.'s office, then small law firm; formed own firm. Took up personal injury, got rich on "sore back" cases. Got far richer from 1987 Texaco-Pennzoil case (estimated $420 million fee, pretax): 1,500 calls next 3 days; now ratio of cases accepted 1 in 300. Self-described "goddamn good" lawyer; personal staff of 3 lawyers, 4 assistants, 4 secretaries. Settlements since 1987 worth about $73 million. Hands out $100 bills to Houston's homeless; but also unpublicized scholarships, grants. Investments in oil and gas, real estate. Reputation as hellraiser. Plans to "play a lot, practice a lot" this year. Visible assets worth estimated $350 million.

Howard Brighton Keck
William Myron Keck II

Superior Oil Co. Descendants of William M. Keck Sr., legendary wildcatter known to taste-test core samples; founded Superior Oil 1921. Pioneered offshore drilling in Venezuela, Louisiana; huge reserves, became largest independent oil company. Died 1964. Howard headed drilling and production, brother William Jr. posed as president, both fighting to succeed William Sr.: Dad picked Howard, Bill walked out in huff. Died 1982. Howard led company through ill-fated mining, timber, farming diversifications, refocused on oil 1976. Uncommunicative about corporate plans; alienated siblings and handpicked directors alike; forced off board during 1983 proxy fight. Upheaval facilitated $5.7 billion takeover by Mobil 1984. Howard: LA. 78. Heads Keck Foundation; financed $70 million Keck Observatory atop Hawaiian volcano, home to one of most powerful telescopes in world. Estimated worth $350 million. William II (William Jr.'s heir): LA. 49. Runs Coalinga oil company (Tex. and La. reserves some $40 million), worth $290 million.

James Donald Slavik ★ and family

W.W. Grainger. Irvine, Calif. 39. Married, children. Son of Elmer R. Slavik (d. 1987) who ran Mark IV Properties, a California-based real estate investment and development firm. Elmer became director W.W. Grainger, now a leading national electrical equipment distributor *(see Grainger)*, beginning 1948. James now president, director Mark IV, after working as real estate broker for Coldwell Banker 1983-87. Elected director of W.W. Grainger 1987, is member of audit and compensation committee. Also director of Mountain Capital Corp. With immediate family James controls Grainger stock recently worth some $350 million. Other relatives have nearly 2 million shares more.

William Shivers Morris III

Newspapers. Augusta, Ga. 57. Married, 3 children. Father rose from bookkeeper to sole owner Augusta Chronicle 1955. Expanded, passed to family after death 1967. "Billy" bought out brother, sister, mother after lengthy lawsuit; founded Morris Communications 1970. Brother Charles started noncompeting chain, but Billy's grew bigger: now 8 dailies, 6 weeklies, billboards, printing companies, etc. Gambled on highly leveraged $210 million purchase of Jacksonville papers 1982. Again 1985: large billboard firm, Naegele, for estimated $300 million. Fortune now estimated around $350 million.

William Lyon

Real estate. Coto de Caza, Calif. 69. Widowed, remarried; 5 children. Pilot age 16, served air force WWII, Korea; rose to 2-star general, awarded 17 combat decorations. Chief of Air Force Reserve 1975-79. In between, built homes with brother; chairman, CEO of William Lyon Co. 1954, provided inexpensive homes for first-time Calif. buyers; currently developing entire community in Rancho Cucamonga. With George Argyros *(which see)* 1981 bought control of ailing AirCal, restructured, sold for profit 1986. Recently hosted $100,000-per-couple luncheon to raise money for Reagan Library; owns over 60 classic cars. Fortune estimated $350 million.

Norton Clapp and family

Inheritance. Seattle. 85. Twice divorced, widowed, remarried; 6 sons (3 deceased), 5 stepchildren. Grandfather Matthew G. Norton cofounded lumber company to supply homesteaders; started Weyerhaeuser Co. with $1.2 million. Father Eben Clapp married 2 Norton daughters, making Norton Clapp principal heir, largest Weyerhaeuser shareholder. Law degree 1928; Navy WWII. Dabbled in law, real estate, into timber 1955. President Weyerhaeuser 1960-66; chairman to 1976. Stepson Booth Gardner, Wash. governor. Norton seen as reclusive Northwest power. Controls assets in lumber supply, seafood company, etc. Besides estimated $350-million-plus, interests in family trust believed to exceed $650 million.

Steven Paul Jobs

Computers. Palo Alto, Calif. 36. Married, 2 children. Adopted at birth. College dropout; traveled, brief stint with Atari. Looked up computer pal Stephen Wozniak, together designed Apple I 1976. Pair designed Apple II 1977; persuaded A. Markkula *(which see)* to help produce; Apple Computer

Bernard F. Brennan

In 1982 he joined Montgomery Ward, then owned by Mobil. In 1988 he could command a 27% share in its LBO. By 1990 he'd turned it around enough to join our list.

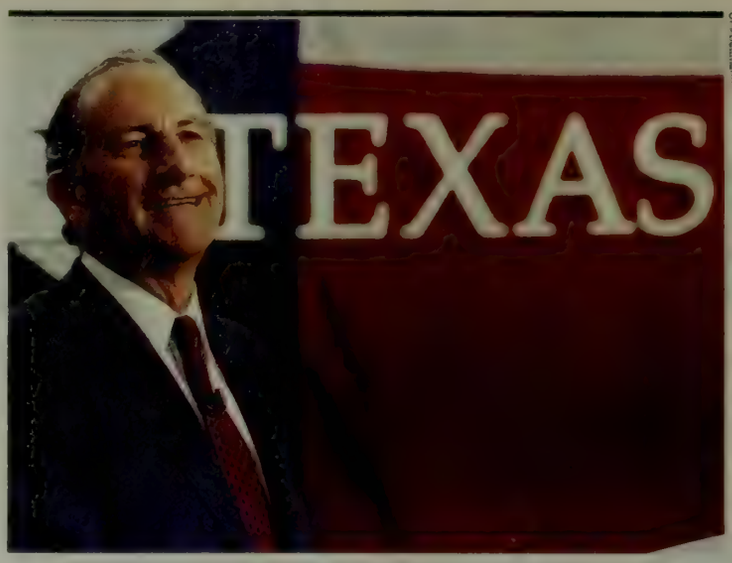
changed computer world forever. Recruited Chief Executive John Sculley, who shoved Jobs aside 1985. Jobs sold Apple stock for $133 million, started Next Computer, Inc. 1985 with $7 million; trying to get it right. In 1986 Jobs acquired Pixar, small computer animation firm George Lucas founded. Not profitable, but will produce 2 Disney animated features. Depending on Next, may be worth some $350 million.

Robert Drayton McLane Jr.

McLane Co. Temple, Tex. 55. Married, 2 sons. Grandfather opened store 1894. Wholesale business 1904. Young Drayton Jr. started in company 1959. President and CEO 1970. Expanded 1966. Innovative use of computers 1970s kept costs down, facilitated nationwide data processing system. Sold out to longtime business acquaintance Sam Walton, December 1990. "It made a lot of sense to merge, since they are moving to stock more groceries." Trade analysts expect Wal-Mart "to become one of the largest food retailers in U.S." McLane received some 5.6 million Wal-Mart shares plus cash. Active in Baptist church. Workaholic. "I get discouraged when the sun goes down." Shares plus cash worth estimated $345 million.

Max Martin Fisher

Oil, investments. Franklin, Mich.; NYC; Palm Beach. 83. Widowed, remarried; 5 children. Son of Russian immigrant peddler who built small oil reclaiming plant. Ohio State football scholarship. Joined dad 1930; raised money from gasoline broker friends for new refinery. Added gas stations. During 1930s oil glut, paid premium to Marathon Oil predecessor for priority service when supplies short. Tapped deal for big bucks in wartime 1940s, 1950s. Sold out to Marathon Oil for stock 1959; sold that 1982 for over $150 million. Also real estate, investments with pal Al Taubman *(which see)*. Big backer Israel, Republicans. "I pride myself on my humility." Net worth estimated at least $340 million.



UPI/Bettmann

Clayton Williams
Claytie made a Forbes Four Hundred pile in the 1970s oil boom, invested in Midland, Tex. real estate, and got slammed by the 1980s oil bust. He ran for governor but blew the women's vote with West Texas crudities.

Reginald F. Lewis ★

LBOs. NYC, East Hampton, Paris. 48. Married, 2 children. Harvard law school (1968). To top law firm; formed own firm 1972. To Wall Street 1983. With $1 million, $24 million loan, bought McCall Pattern Co. 1984. Made estimated $80 million on 1987 sale. Met Mike Milken. Engineered 1987, $985 million buyout from Kohlberg Kravis Roberts of food giant Beatrice International. Got 47%. Sales now $1.5 billion, paid debt down hard. Reported $17 million from salary and return on capital for preferred stock, but 1990 net earnings $46 million. Active in Democratic politics. Francophile. Cigar lover. Collects French surrealists, African-American paintings. "The word 'no' is not in his vocabulary." Estimated net worth $340 million.

Phillip Frost

Medicine. Miami Beach. 54. Married. U. of Pennsylvania, Albert Einstein College of Medicine. Dermatologist by trade, invented disposable instrument for taking biopsies. Took over failing Key Pharmaceuticals 1971, turned around; developed new delivery systems for old drugs to hospitals. Sold to Schering-Plough 1986; believed to hold some 3.4 million shares. Promptly founded IVAX to get into real big time: develop and market the drugs. Not waiting for research to pay off; acquired small companies, rights for salable drugs to generate immediate revenues. Also many small investments. "He likes to be a catalyst for deals." Recently acquired U.K.'s Harris Pharmaceuticals. Active civic, philanthropic organizations. Believed worth well over $340 million.

Eli Broad

Kaufman & Broad, Broad Inc. LA. 58. Married, 2 children. Built first houses (with partner Don Kaufman) on in-laws' $25,000 loan 1957. Rapid growth to 1973. Broad's two golden housing markets: California, France (largest builder in Paris area). Added insurance to hedge real estate cycles; spun off Broad Inc. 1989, now buying struggling financial services companies, e.g., Integrated Resources; plans single-premium-annuity giant. Developing 3,500-acre Stanford Ranch planned community outside Sacramento, Calif. Collects contemporary art; LBO investor; gave $20 million to Michigan State M.B.A. program. "Eli is a pleasant man, but he is the type of guy who will clean your clock in a business deal." Believed worth over $335 million.

Solomon Price

Price Co. La Jolla, Calif. 75. Married, 2 sons. Practiced law 17 years; quit 1955 to launch Fed-Mart Corp., mass merchandiser, pioneered house brands and "one-stop shopping" concepts. Sold out 1975 to Hugo Mann, German billionaire. Founded Price Co. 1976, created warehouse membership store with son Robert; took public 1980. Since then, copycats, especially Sam Walton's *(which see)* Wholesale Clubs, soaked up some market share. But on sales per store,

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profit margin, Price still on top. With about 70 stores U.S., Canada, Robert, CEO, says now looking at Mexico. Sol's stock, other assets recently worth over $335 million.

Dwayne Orville Andreas and family

Archer Daniels Midland. Bal Harbour, Fla. Divorced, remarried; 3 children. Shelved plans for ministry, dropped out of Wheaton College to join family grain business. Sold some assets to Cargill, millionaire at 27. Bought into ADM, soybean processor, corn refiner and flour miller 1965. Chairman 1970, CEO 1972; became largest U.S. agricultural processor ("It grew up under me"). Noting gasoline price vulnerability in Persian Gulf war, Andreas points to ethanol, more costly but less polluting fuel distillable from cornstarch. Donor, political ally to Democrats, Republicans. Former Vice President Hubert Humphrey was godfather to son Michael (Mick), now executive vice president. With son, has shares recently worth $335 million.

Patrick George Ryan

Insurance. Chicago. 54. Married, 3 sons. To Northwestern on football scholarship, then sought an insurance career after reading about agents with six-figure incomes. Did stint as Penn Mutual salesman, set off in new direction: selling casualty insurance through car dealers. Went public in 1972, merged with pal W. Clement Stone's Combined International and got 11% chunk. Became chief executive officer, president, renamed firm Aon Corp. (Gaelic for "unity") 1987. "Selling is not a lot of talking. If you listen, people will tell you what they want and what's bothering them about what you have." With wife Shirley, Ryan is well known in Chicago's social scene. "They think they're the Kennedys." Shares are worth $330 million.

Anne Burnett Sowell Marion

Inheritance. Fort Worth, NYC. 52. Thrice divorced, remarried (to Sotheby Chairman John Marion); 1 daughter. Legend: great-grandfather Burk Burnett won family ranch, the 6666, in poker game. Eventually amassed 448,000 acres, mostly West Texas; found big oil on 6666; left Anne's mom, "Big Anne," heiress. She loved weddings as much as oil: married 4 times (twice widowed, twice divorced), lastly to Charles Tandy, the founder of Tandy Corp. But kept wells pumping. Left to daughter, "Little Anne," the product of second marriage. Keeps the Burnett traditions, quietly collects land, oil royalties, art and husbands; avid hunter quail and doves. Directs the $190 million Tandy Foundation. Estimated to be worth at least $330 million.

Kenneth Eugene Behring

Developer. Blackhawk, Calif. 63. Married; 5 sons, all in business. U. of Wisconsin dropout: football knee injury. Leased gravel lot for $15/month, bought 27 used cars for $900; later pushed new Lincoln Mercuries. Switched to buying, developing Florida land. Went west 1972: 3,300-unit development California; new 5,000-acre site near Seattle; al-

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Carolyn and Harold Farb
When the Houston developer split from her in 1983, he was on our list and she got a $20 million settlement. Now she is a local patron of the arts. Harold, since twice married, is trying for a comeback.

ready, environmental protests. Owner 75% Seattle (football) Seahawks. Built $10 million museum to house "world class" car collection, donated to U. of California, Berkeley; building museum to inspire excellence in schoolchildren via guest speakers, cable hookups to schools. Behring's wealth estimated at least $330 million: "You can't underestimate the value of luck."

Peter Jay Sharp

Real estate. NYC. 61. Widowed, 3 children. Father successful real estate developer, owned parts of 22 hotels; built NYC's Volney, Stanhope, where Peter grew up. Father died young 1941. Interior decorator wife took over, passed to Peter intense and fastidious approach to hotel business. After Princeton, Peter argued with mother, struck out on own. Assembled own real estate empire: Manhattan office buildings, apartments; picked up Carlyle Hotel for $16 million 1967, co-oped over half. Considered finest New York hotel, but maybe not by old money: devoted to pampering new rich, First Ladies,

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rock stars: "Our clientele does not take taxis." Net worth estimated some $330 million.

Roy Sakioka and family ★

Real estate. Costa Mesa, Calif. 92. Married, 6 children. Very low profile. Youngest of 6, emigrated from Japan 1916; eventually naturalized. Tenant farmer, interned WWII with other Japanese-Americans. Tired of rent, started buying farmland 1946: low down payment, worked off mortgages. Found genius for picking locations, canny at getting good prices, mostly through 1950s. Also selling, when California development reached his fields. First LA area, then Orange County. Bought new land, or swapped up. Today still calls shots: over 240 acres Orange County, some worth $1 million each; 2,600 agricultural, industrial and commercial acres Ventura county. Virtually no debt. Estimated worth at least $325 million, with family.

Hugh Franklin Culverhouse

Real estate, banking, sports. Tampa. 72. Married, 2 children. Son of coal mining engineer, boxer at U. of Alabama; sparred with George Wallace. IRS prosecutor, became premier tax attorney Florida—Richard Nixon, Bebe Rebozo clients. Bought 13,000 acres Sarasota, called Palmer Ranch, 1970; sold about half to Coast Federal S&L for $35 million 1981. Now owns Coast Bank 100%. Has ventures in citrus groves, other housing developments. Owns Tampa Bay (football) Buccaneers; influential in league. Recently underwent surgery for lung tumors. Four days out of hospital went hunting in Tanzania: Bagged kudu from over 250 yards. "It was one of the biggest my guide had ever seen." Fortune estimated at $325 million.

Clemmie Dixon Spangler Jr. and family

Investments. Chapel Hill, N.C. 59. Married, 2 daughters. Father, farm boy, took construction job; learned business. Built homes, apts., motels, construction company. "Dick" Jr. became president of C.D. Spangler Construction Co. 1960. Built, owned Golden Eagle motel chain 1960s; sold 1970s, 1980s; proceeds bought estimated 2-million-plus shares RJR prior to 1989 buyout. Suing because some shares sold while LBO plan "fraudulently" concealed. Sold bank started by his father to NCNB 1982, acquired more NCNB; now controls 8 million shares, gave board seat to wife. Lifelong interest in desegregation while on school board; president U. of N.C. 1986. Controls fortune estimated at least $325 million.

Sydney Mark Taper

First Charter Financial. Beverly Hills. 90. Widowed, 3 children. Born in Warsaw, educated England. As child, peddled candy to schoolmates. Bought residential real estate firm at 27, built homes in England during Depression, retired by 37. Arrived in California 1939 to avoid WWII, with about $1.5 million, real estate skills. During war built GI housing, later dropped out of business again. But as California economy boomed, bought into S&Ls: founded First Charter S&L 1955; took public 1959. Closely controlled by tight-fisted Taper, company grew to third-largest U.S. thrift. Merged with Financial Corp. of America 1983. Taper cashed out; now managing personal investments believed worth over $325 million.

Grover Connell

Equipment leasing, food. Westfield, N.J. 73. Married, 3 children. Navy WWII. Took over family business, Connell Rice & Sugar, built into largest U.S. independent rice and sugar trader/broker. Once dominated foreign aid rice exports; U.S. export share now estimated 20%. Equipment leasing business from 1973 (railroad equipment, aircraft, power plants); now over $1.2 billion assets. Also owns prime N.J. real estate just outside Manhattan. Well-connected Democrat; reputation as one of nation's largest donors of politicians' speaking honoraria. Charges of illegal activities with Korean wheeler-dealer Tong-Sun Park dropped 1979. Lives modestly, sent kids to public school. Fortune estimated $325 million.

Cyril Wagner Jr. Jack E. Brown

Partners. Oil, investments. Midland, Tex. Wagner: 57. Divorced, remarried; 5 children. Brown: 66. Married, 3 children. Geologist Wagner and engineer Brown formed oil and gas partnership Wagner & Brown 1962. Built up oil reserves using complementary backgrounds. Predicted oil collapse, diversified into plastic manufacturing and equipment early 1980s. With T. Boone Pickens made failed Gulf bid 1984, but $70 million profit. Also took runs at Unocal, Phillips Petroleum. Formed Desert Partners 1986, failed acquisition of USG Corp.: Bought Insilco Corp. 1988 for $813 million. Now in Chapter 11. "They go hunting together, they get drunk together." Highly secretive. Joint net worth estimated at $650 million.

Fayez Shalaby Sarofim

Money management. Houston. 62. Divorced, remarried; 5 children. Egyptian-born son of wealthy landowner; Harvard Business grad, naturalized 1961. Joined Anderson Clayton 1951 managing pension funds; helped manage company's own employee pension fund. Launched Fayez Sarofim & Co. 1958 with $100,000 from father; gained clout hooking client Rice U. Dubbed "The Sphinx" for stock market wisdom; now manages some $23 billion. Bullish: thinks Dow Jones Industrial Average can hit 10,000 by 1995; favors consumer products franchises: Procter & Gamble, Coca-Cola, Philip Morris. Early investor Teledyne with George Kozmetsky, Henry Singleton. After divorce, his 70% of firm Fayez Sarofim & Co., large personal portfolio believed worth at least $320 million.

Robert Allen Naify

Movie theaters, cable TV. San Francisco. 69. Married, 6 children. Son of Lebanese immigrant who began in Atlantic City movie theater 1912, moved to California; founded United Theater chain 1920s. Acquired half United Artists Theater circuit 1950. Robert, brother Marshall began as ushers, projectionists. Merged other

50% in 1963; Naify brothers took control. Sold out to Tele-Communications Inc. 1986 for rights to 14 million shares, $150 million cash. TCI now largest U.S. cable operator, owns 56% United Artists Entertainment. Reclusive Robert ran company day-to-day. Now president Todd-AO. His stock recently worth about $320 million.

William Robert Berkley

Insurance, food processing. Greenwich, Conn. 45. Married, 3 children. Father died when Berkley 11: "Went from upper middle class to poor"; recruited kids to mow lawns, delivered superior service. At age 12, bought shares of Decca Records, stock tripled: "I was sure it was an easy game"; at 15, called Chrysler chairman with queries before buying: "Boy, did I get in trouble with my mother—it was a big phone bill." Whiz kid at Harvard Business School; Wall Street "gunslinger," managed over $25 million for clients at 23. Quit early 1970s to buy unpopular companies in fragmented industries: specialty insurance, food distribution, fire protection. "The measure of a person is what they do. Words are cheap." Estimated worth over $320 million.

Richard E. Jacobs

Shopping centers. Lakewood, Ohio; NYC. 66. Divorced, 3 children. Raised Akron, father sold Goodyear blimps. Dick and his brother Dave sold real estate after World War II; assembled sites for then fledgling mall developer Edward DeBartolo *(which see)*. With partner Dominic Visconsi, built own mall Columbus, Ohio 1962; now over 40 malls, more than 40 million square feet nationwide. Visconsi is still financially involved. Dick is the driving force, dealmaker; Dave handles architecture, construction, has minority position. Also 27 Wendy's franchises, Marriott hotels, Cleveland (baseball) Indians. Major partner Dick's net worth is estimated at $320 million.

A. Donald McCulloch Jr.

Dieting. Blue Bell, Pa. 44. Married, 2 sons. Born Boston; age 8 when father died; raised by schoolteacher mother. Academic scholarship Harvard, M.B.A. Career in corporate marketing, turnarounds. Hired as chief executive of struggling Nutri/System diet center 1985: "They were so hungry for leadership that I got a standing ovation." In 1986, with 3 partners, bought out founder in $70 million leveraged buyout on $10,000 cash, $2 million in home mortgages. By 1989 revenues $251 million. But since then, many lawsuits filed claiming gallbladder damage. Much adverse publicity; company's then number one franchisee, Keegan Management, sold nearly all its centers. Entire diet industry took a beating. McCulloch's 74.5% now estimated worth $320 million.

B. Francis Saul II

Banking, real estate. Chevy Chase, Md. 59. Married, 5 children. Heir to Washington, D.C. real estate company founded by grandfather 1892. Formed B.F. Saul Real Estate Investment Trust 1964; took private 1988, rough years since. Started Chevy Chase Federal Savings Bank in trailer (still in place) at shopping center 1969; now one of largest consumer banks in Maryland, holding own in troubled industry. Two sons should be fourth generation in family business, although one is facing insider trading charges, trial pending. Owns at least a dozen real estate, financial service operations. Philosophy: "Be conservative; build long-term values. I'm not a trader." Stays well out of the public eye. Fortune estimated at $315 million.

Donald Trump
Once our brattiest billionaire, now off our list. Trump continues to put fancy (and, in this market, fanciful) values on his real estate and casino assets, but the cash flows still aren't covering his interest costs.

Saul Philip Steinberg

Financier. NYC. 52. Twice divorced, remarried; 6 children. Finished Wharton in three years, age 19. Founded computer leasing firm 1961 with father's $25,000; went public 1965; gained control of Reliance Insurance 1968. Failed run at Chemical Bank 1969. Took Reliance private 1982 for $550 million, public again 1986. Played junk bond market mid-1980s; Reliance sold Days Inns interests 1989 for $765 million. Has over 43% Reliance, with members of family, trust, 79%; he, relatives paid millions. Sizable art collection featuring Old Masters; hefty charitable contributions. Active in the New York City social whirl. Estimated net worth at least $315 million.

Floyd Dewey Gottwald Jr.
Bruce Cobb Gottwald

Brothers. Ethyl Corp. Richmond, Va. Floyd Jr.: 69. Married, 3 sons. Bruce: 58. Married, 3 sons. Both attended Virginia Military Institute. Sons of Floyd Sr. (d. 1982) who climbed ladder from office clerk 1918 to president Albemarle Paper Manufacturing 1941. After 1962 merger with Ethyl, Floyd Sr. sold paper outfit for $55 million 1968. Ethyl's main product, gasoline antiknock compound TEL, contained lead, ran afoul of the Environmental Protection Agency. Sons adapted; diversified into aluminum, plastics, insurance, pharmaceuticals. Now leading U.S. producer pain reliever ibuprofen (Nuprin); contains no lead. Spun off aluminum, plastics, energy divisions into Tredegar Industries 1989, headed by Floyd Jr.'s son John. Floyd Jr., chairman 1968, CEO 1970; Bruce, president 1969. Last year sales of $2.5 billion. Brothers' 19% of Ethyl (Tredegar holdings minor) worth some $630 million.

M. Larry Lawrence

Real estate. Coronado, Calif. 65. Three times divorced, remarried; 3 children. Chicago-born. Poor, slept on bed in living room. "I never knew anyone who lived in a single-family home until I went to college." Worked in deli age 9. Played pro football, worked as carpenter; started building homes. To San Diego 1951. Bought run-down Hotel del Coronado to get land 1963; cost under $10 million. Thought about demolition, reconsidered. Over 10 years poured $100 million into hotel repairs. Now principal asset, estimated worth over $200 million. Also owns office buildings, construction company. Active in stock market. Deal junkie. Liberal Democrat. Net worth estimated around $315 million.

Robert J. Congel

Shopping malls. Fayetteville, N.Y. 56. Married, 5 children. Son of Syracuse construction superintendent. Fordham degree 1958, then won $13,000 water pollution control contract; dug cellars a.m., laid pipe p.m. First shopping center 1973. Now majority partner Pyramid Co., largest mall builder in Northeast. Tough: may kick out tenants who fail to meet sales targets. Fights politicians, environmentalists, local merchants to build; usually wins. Bought Bonwit Teller last year as name anchor tenant. Rumored to own vast amount of office space, too. Wife, children share trusts, active in company. Congel demurs: "I don't hardly own anything." "Hardly anything" worth estimated $310 million.

Anthony Savignano/Ron Galella

John Johnson
The legendary entrepreneur hocked his mother's furniture to start Negro Digest in 1942, added Ebony, Jet; later, cosmetics. In 1985 he started Ebony Man (circ. 270,000). In the crowded male segment, it has held on despite today's ad drought.

Robert Charles Joseph
Edward Sabatini Guccione

Publishing. NYC. 59. Twice divorced, remarried; 5 children. Brooklyn-born accountant's son. At 18, traveled Europe drawing portraits, telling fortunes. With few thousand from father, started U.K. mail-order sales of U.S. girlie magazines, pinups. Evolved Penthouse idea: grittier, more pubic, more European. Launched London 1965; U.S. 1969. Later, Omni, Longevity, Four Wheeler; bought Saturday Review, Compute!, 3 automotive trade magazines. Will bring Penthouse to Turkey, Japan in fall; Poland soon after. Bought impressionists: estimated $70

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AP/Wide World

Barbara Piasecka and J. Seward Johnson in the Bahamas **After 12 years of marriage to his former upstairs maid, he would die in 1983, leaving her Johnson & Johnson stock that would today be worth nearly $1 billion.**

million. Extravagant New York City town house (silver-lined swimming pool); 67-acre estate; Atlantic City holdings. Estimated worth around $310 million.

Ernest Gallo
Julio Gallo

Brothers. Wine. Modesto, Calif. Ernest, 82; Julio, 81. Each married, 2 children. Italian immigrant father Joseph bought 230-acre Modesto vineyard 1930s; despondent over Depression and ill health, shot and killed wife, self. Six weeks later sons went to local public library, read winemaking pamphlets, started pressing with $6,500; keeping labor in the family, able to sell wine 1933 at 50 cents per gallon; later, gained significant market advantage with vertical integration. Chairman Ernest stormed distributors with Gallo products, considered marketing genius. Thunderbird first major success: connoisseurs reject, winos don't. Constant effort since to upgrade product image: recently withdrew "fortified" wines (Thunderbird, Night Train Express) from many stores nationwide. Sued younger brother Joseph, dairy farmer, for putting family name on his cheese; Joe countersued for third of winery, lost both fights. Julio still runs the lab, Ernest the office ("I have no better place to go"), but winery now directed by duo's 4 children. Gallo gaining share in premium wines, brandy. Brothers jointly own company estimated worth at least $600 million. Ernest believed to have large personal stock portfolio.

Robert Boisseau Pamplin Sr.

Textiles. Portland, Ore. 79. Married, 1 son. Raised penniless; mother made clothes from sugar sacks. Rose to CEO of Georgia-Pacific. On day of mandatory retirement bought tiny Ross Island Sand & Gravel—base for today's $463 million (sales) R.B. Pamplin Corp. with 16 textile mills: "It's not that we were interested in textiles, it's that they were more undervalued than anything else." Also real estate. Son Robert Jr., author, holds 8 degrees (Ph.D.s: theology, business), preaches cross-country, gave speech at Pentagon on ethics. Father, son avid hunters. With son, fortune estimated $300 million. "It's just a lot of fun and the good Lord has been very rewarding to us."

Malcolm Austin Borg

Publishing, TV. Englewood and Spring Lake, N.J. 53. Married, 3 children. Grandfather John wealthy Wall St. stockbroker, bought into Bergen County (N.J.) Record 1922; wholly owned by family since 1930. Considered best-written paper in state: "You can't have quality without putting money into it." From small country daily to suburban powerhouse (Sunday circ., 240,000). Malcolm took over 1971; brother sold out amicably 1982. Macromedia Inc. also owns Woodbridge (N.J.) News-Tribune and 4 TV stations. Son John, 29, chief operating officer for the Hong Kong Standard; probable successor to newspapers; Jennifer, 26, NYC attorney; Stephen, 23, learning about TV. Fortune estimated at $300 million.

Marshall Edison (Doc) Rinker Sr. and family

Concrete. Palm Beach. 86. Widowed, remarried; 3 sons. Nicknamed "Doc" after close family doctor; arrived Florida in Model T 1925 "flat broke." Founded Rinker Rock & Sand Co. 1926. Lifelong devotion to work: 12-

hour workdays standard. Schedules staff meetings 6:30 a.m. "You relax all the time, you die." Slow start, eventually built largest Florida supplier of ready-mix concrete. Son became president 1982; left 1983. Sold out to Australian CSR Ltd. 1988 for $515 million; Rinker stake 71%. Doc still consultant to old firm, handles portfolio worth some $300 million. "I'm going to keep going until I die. Then God can handle it."

D. Dean Rhoads

Industrialist. N. Palm Beach, Fla. 64. Divorced, 3 sons. Raised poor in Fort Wayne, walked to one-room schoolhouse. "We barely had enough money for food and no money at all for clothing." Attended Indiana U. Inventor. With $1,000 formed Lincoln Mfg., age 29, to make, market over 50 personal inventions—e.g., containers that kept food hot for more than 4 hours. Added products; grew to international company; sold to Alcoa 1976. Formed Worldmark Group (holding company) 1976. Expanded by acquisition: radio stations, metal processing, travel, real estate, etc. Forty companies worldwide; company sales figure: $655 million. Pilot, now into jets. Believed to be worth $300 million or more.

Lavinia M. Currier
Michael S. Currier
Andrea B. Currier

Sisters and brother. Inheritance. Great-grandchildren of Andrew Mellon *(see Mellons, Scaife, May)*. Siblings aged 6 to 11 when parents Audrey Bruce Currier, Stephen Currier killed plane crash Bermuda Triangle 1967; grandmother Ailsa died 1969. As kids, recipients of generous trusts. Paternal grandfather David K.E. Bruce served as ambassador to 4 countries; Congress adjourned early on wedding day, 1929. Lavinia ("Vinnie"): The Plains, Va. 34. Single. Jet-setter with country lifestyle on family estate, Kinloch Farms. Michael: NYC. 30. Single. Active in family investments, philanthropies. Andrea: The Plains, Va. 35. Divorced, remarried; 2 children. Operated upscale restaurant 1980s. With husband lives

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on Kinloch Farms, uses family name. Each sibling estimated $300 million or more.

James Emmett Evans

Citrus. Dade City, Fla.; Highlands, N.C. '91. Widowed, divorced; 2 children. Former Georgia Ford salesman, went to Florida with $500. Purchased first orange grove mid-1920s; became mayor Auburndale 1925. Since, minded business: built to over 33,000 acres orange, grapefruit groves; one of largest independent growers. All oranges to Tropicana, most grapefruit to Japan. "Older than dirt and meaner than a snake." Nicknamed "The Wheel," as in wheeling and dealing, (used to track commodities market); still hard at work: "I'm not old enough to retire." Both children, 2 grandsons active in business. Gave up golf, plays gin rummy at his house with same card-playing pals for 40 years. Profits up, groves alone estimated over $300 million. Gin winnings unknown.

Richard Jerome O'Neill Alice O'Neill Avery and family

Brother and sister. Inheritance, real estate. Grandfather Richard O'Neill left cattle business in Ireland to manage friend's vast southern California ranch in exchange for half the land. Grandchildren inherited 52,000 acres 1943, sold parcels steadily. Developed 10,000-acre Mission Viejo tract mid-1960s with Donald Bren *(which see)*, later purchased by Philip Morris for $72 million. Currently developing 5,000-acre planned community Rancho Santa Margarita, Orange County, headed by Alice's son Anthony Moiso. Richard: San Juan Capistrano, Calif. 68. Married, no children. "Uncle Dick" known for sloppy appearance, penchant for mismatched socks. Ranching interests Mexico, Nicaragua; also Calif. restaurants: "I don't like sure things, money in the bank; money in trusts drives me nuts." State Democratic heavyweight. Alice: Los Angeles. 74. Divorced, widowed; 3 sons, 7 grandchildren. Dick and Alice, family share ranch, other investments estimated over $600 million.

Willis Harrington du Pont Edith du Pont Pearson and families

Inheritance. Surviving children Lammot du Pont (brother and key associate of Pierre, *see family*), president Du Pont Co. 1926-40, chairman 1940-48; d. 1952. Edith (Mrs. George Burton Pearson Jr.): Montchanin, Del. 79. Widowed, remarried; 5 children by first marriage. Husband retired Delaware judge. Willis: Palm Beach, Fla. 55. Married, 3 children. Son of Lammot's fourth wife (other siblings by first). Citrus, banking investments in Florida. Brother Pierre S. du Pont III (d. 1988) lost small fortune backing movies, was father of Pierre S. IV, former governor of Delaware, one-time presidential candidate. Edith, Willis, with families, share fortune believed to exceed $600 million.

Jack Monteith Berry Sr. and family

Citrus. Winter Haven, Fla.; Blowing Rock, N.C. 74. Married; son, 2 daughters. Berry Sr. left native Tennessee to seek success in New York 1939, took course to lose accent. Became fruit broker, by age 30 had own company. In 1950s supermarkets bypassed brokers; Berry moved to Florida, grew citrus. In 1960 planted 6,000 acres; now one of last, largest independents: over 20,000 acres mostly south of freeze zone; also 3 plastics plants, box plant. Claimed too-low FORBES estimate hindered his efforts to sell company at good price. Recently handed over portions of citrus business, some real estate to son Jack Jr. and daughter Ruth. Still largely in charge. Combined wealth estimated over $300 million.

August Christopher Meyer

Broadcasting. Champaign, Ill. 90. Widowed, 1 son in business. Was successful lawyer in hometown Champaign. Invested in local TV station 1953. "We started out losing money. I had to get more involved than I intended to." Bought San Diego TV station 1964 for $11 million. Now Midwest Television: 3 TV, 4 radio, practically debt-free. Chairman family-controlled Bank of Illinois. "Finish each transaction as if you expected to do business with that person again tomorrow." Son August Jr. (Chris) running stations since 1976; Sr. still semiactive chairman. Media properties down in value, but still believed to be worth some $300 million.

Stanley Stub Hubbard

Broadcasting. St. Mary's Point, Minn. 58. Married, 5 children. Father Stanley Eugene, 94, founded first (but unsuccessful) U.S. commercial airline. Built one of Minneapolis' first radio stations 1923 (WAMD—"Where All Minneapolis Dances"), added television 1948. Business grew steadily. Stanley Stub took over after dad's stroke, 1981. Now 9 TV, 2 radio. "We are moving ahead." Getting into direct broadcast satellite TV: direct satellite feeds to homes, using 18-inch dishes costing $300 to $700. Conus satellite news service with at least 135 member stations. Invested $100 million in All News Channel joint venture with Viacom; Also Sky Channel (doing poorly.) "I'm always working, always on the phone." Estimated $300 million.

Orvon Gene Autry

Broadcasting, baseball. L.A. 84. Widowed, remarried; childless. Raised on Oklahoma ranch, a "barefoot cotton-chopping farmboy." Worked as telegraph operator, railroad worker. Discovered by Will Rogers while playing guitar on railroad depot: "Boy, you pick good." Became "Oklahoma's yodeling cowboy." Went Hollywood; only person with 5 stars on Walk of Fame: movies, TV, radio, recordings, personal appearances. Bought first radio station 1952, sold 7 radio, TV stations 1982-83; still has 4 radio. Bought Calif. (baseball) Angels 1961 cheap. Also securities, real estate, Palm Springs hotel. Estimated worth some $300 million.

Michael Dell ★

Computers. Austin, Tex. 26. Married. As teenager, ran stamp and coin auctions on weekends, earned thou-

sands selling newspaper subscriptions to newlyweds. Began U. of Texas premed; sidetracked selling computers out of dorm room; dropped out sophomore year, confident he could make $1 million a month dealing IBM-compatible systems directly to end users at bargain prices. Privately financed Dell Computers 1987; first public offering 1988, second early 1991 with eye to international expansion. Normal distribution channels baffled by Dell's telemarket approach. "If you were writing a book on my company, you would only be on page four." His stock recently worth $300 million.

Richard Palmer Kaleioku Smart

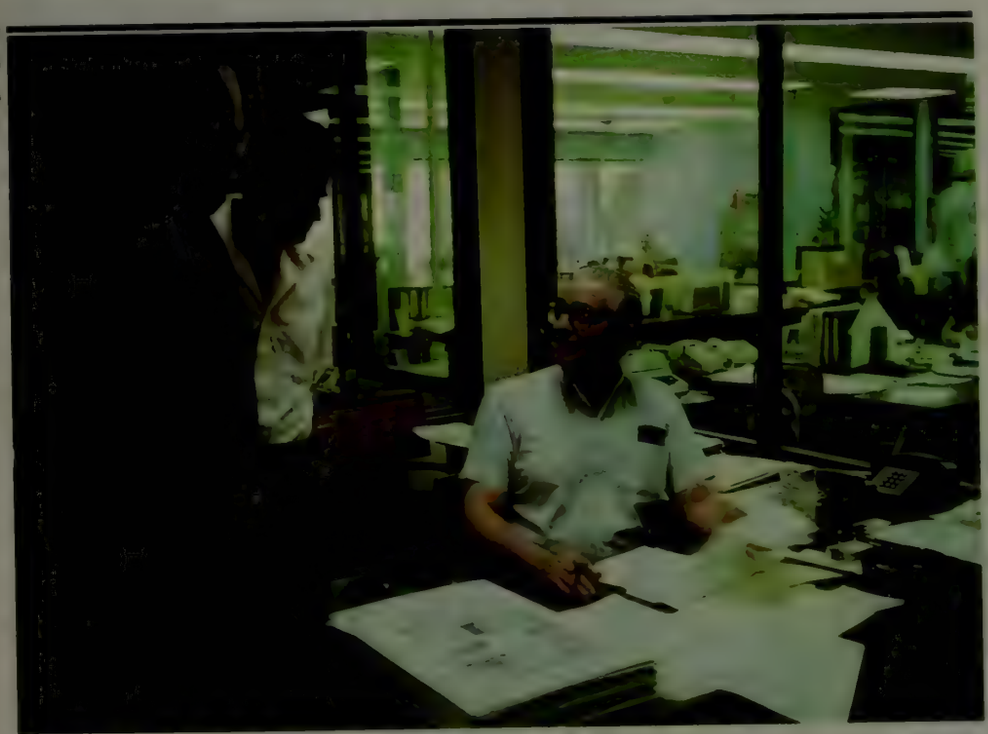
Inheritance, ranching. Honolulu and Waimea, Hawaii. 78. Divorced, 2 sons. Heir of John Palmer Parker, New England seaman who jumped ship 1809 to Hawaii's big island. Hired by King Kamehameha to kill island's unruly "wild" cattle. Got along well with king; married his granddaughter Keliikipikaneokaolokaha (later known as Rachel); received small land grant. Built into famous Parker Ranch: today 211,000 acres; 50,000 (domesticated) cattle. Descendent Richard, after 25-year, moderately successful theater career, took over 1959. Collects impressionist paintings and sculptures from Ming and T'ang dynasties. Fortune estimated worth at least $300 million.

Joseph Alexander Hardy III and family

Building supplies. Farmington, Pa. 68. Married, 5 children. Left father's jewelry store, started building supplies outlet 1952 with two brothers, Ryan Homes founder Ed Ryan. Split 1957 to build 84 Lumber Co.; retail yard, originally serviced do-it-yourselfers, cut-price cash-and-carry, low overhead; now 360 dimly lit, unheated stores. Transferred 40% to daughter Maggie, 25, with whom operates Nemacolin Woodlands, posh Pa. resort/spa/conference center. Often at Christie's auctions; also collects Stanley Steamers. "I'm not immortal, but I plan like I'm 30." Bought British title 1990. Lord of the Manor of Henley-in-Arden estimated worth over $300 million.

Robert Einar Petersen

Publishing. Beverly Hills. 65. Married. Son of Calif. auto mechanic; worked as short-order cook, pumped gas; was movie studio publicist. Turned hobby into magazine with $400 and partner: hawked Hot Rod for 25 cents at races 1948. Bought out partner 1950, expanded. Petersen Publishing now 16 monthlies (e.g., Motor Trend, Guns & Ammo, Skin Diver), 7 bimonthlies. Bought Sport magazine 1988. First man to kill polar bear with revolver, 1965. "It was shoot or be fatally mangled." Pursues what his magazines cover "except for Teen." "We're a good medium for a lot of what advertising is—beer, cigarettes, cars, all those good things." Also good for over $300 million.



Randy Taylor/Sygma

Generoso Pope Jr.
His death in 1988 started a frenzy among publishers hoping to buy his National Enquirer, which he bought for a song in 1952 and shrewdly edited into the archetypal blue- and pink-collar, checkout-counter tabloid. Winning bid: $412.5 million, from McFadden Holdings Inc.

Virginia McKnight Binger

Inheritance. Wayzata, Minn. 75. Married, 3 children. Only child of William McKnight, South Dakota farm boy who climbed then-tiny 3M's corporate ladder from bookkeeper, 1907, to head company; died 1978, left $500 million fortune to foundation, daughter. Virginia honorary chairwoman of nearly $1 billion McKnight Foundation, has own foundation, VMB, for Minneapolis poor. With husband James (former Honeywell CEO), runs Broadway's Jujamcyn Theatre chain (now showing *The Secret Garden*, etc.). Tartan horse farm, Florida, to become golf course, condos. "Every day is different because I have so many interests." Her 3M stock, etc., worth more than $300 million.

Gary Campbell Comer

Lands' End. Chicago. 63. Married, 2 children. Avid sailor, competed 1968 Olympic trials. Skipped college. Award-winning copywriter Young & Rubicam 1952-62. Started Lands' End 1963 as sailing equipment com-

pany. Typo in first brochure, hence apostrophe in company name on wrong side of the "s." But turned a profit in 3 years; kept apostrophe. Customers began to demand clothing; dropped boat hardware 1977. Took public 1986. Now offers high-quality merchandise through mail-order catalogs (1990 sales, $604 million); mailing list 12.5 million. Company dogged with inventory overstocks; 3 specialty catalogs started last year. Rise in stock returns him to this list; estimated $300 million.

Louis Thalheimer
Ruth Blaustein Rosenberg and family

Inheritance. Baltimore. Heirs of Lithuanian immigrant Louis Blaustein (1869-1937), who invented predecessor of modern RR tank car; only son, Jacob (d. 1970), pioneered metered gas pump, drive-in stations, antiknock gasoline. Family company, American Oil, merged with Standard Oil of Indiana for 5.25 million shares, (now estimated 16.7 million shares). Part-time diplomat: convinced U.N. conferees to accept human rights provisions 1945. Jacob's son Morton died December 1990, choked while eating. Wife, daughters, etc. likely inherited estate worth $600 million or more. Jacob's sister Ruth: 92. Widowed, 3 children. Peabody Conservatory of Music $3 million pledge on her behalf. Her portion estimated $300 million. Her only son, Henry Jr.: 61. Divorced, remarried; 3 children. CEO and president family-controlled Crown Central Petroleum, votes most shares. Louis (grandson of Jacob's deceased second sister Fanny): 47. Married, 3 children. Sports lover; CEO and president of family company, Atapco. Controls interest estimated at least $300 million.

Viola Sommer

Inheritance. Great Neck, N.Y. Late 60s. Widowed, 3 children. In 1930s, 1940s, husband Sigmund Sommer built small apartment buildings Brooklyn, single-family homes N.J. By mid-1970s, shopping malls, huge luxury apartment buildings. Owned top Thoroughbred money-winner 1971-72 and died of heart attack at racetrack 1979. Lawsuits over estate say lawyers sold real estate worth $100 million for $10 million, took huge fees, interest-free loans. Heirs obliged to pay $430,000 legal fees to attorney they have tried to fire since 1989; judge deliberating on another $170,000. Appeals pending. Net worth believed over $300 million anyway.

Michael Robert Forman

Real estate, movie theaters. 56. Bel Air, Calif. Divorced, remarried; 2 sons, daughter from first marriage. Father started drive-in empire 1940s, bought vacant land for theaters near soon-to-be-completed Los Angeles freeways: land eventually perfect sites for shopping centers, etc., appreciated several hundredfold. Later expanded into walk-in theaters around California, elsewhere. Died 1981. Son Michael, very private, reportedly philanthropic, passed active management of family fortune to no-holds-barred money manager Jim Cotter. With Cotter's canny investments, occasional takeover bids, Forman believed worth over $300 million.

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Gamma Liaison

Marc Rich
He started the 1980s fighting his former employer, Phibro. Now he's starting the 1990s owning it. The consummate middleman, Rich is wanted on criminal tax evasion charges, yet counts among customers for his metals the U.S. Mint.

William Edward Simon

LBOs. New Vernon, N.J. 63. Married, 7 children. After Lafayette College, traded munis on Wall Street; later was head government trader for Salomon: "Don't try to get intellectual when you're in the marketplace. Just trade." Treasury Secretary under Ford: "Government is a menace." Pioneer LBO firm with Ray Chambers, 1981-86; bought underpriced cash-rich companies in mature industries. Partnership split; soon teamed with Gerald Parsky (LA lawyer) as WSGP International to invest in Pacific Basin. Duo still recovering from shaky start in S&Ls—hit hard when government altered capital requirements. Recently sold healthy Honfed Savings for big profit, though. Opened muni firm near New Jersey home 1990 with personal $10 million; believed still worth $300 million.

Burton Paul Resnick

Real estate. NYC and Rye, N.Y. 54. Married, 3 children. Late father, Jack, started small Bronx construction firm 1928; built in Manhattan 1950s. Burt joined Jack Resnick & Sons after U. of

Recently, The Equitable further strengthened its financial base through a $1 billion investment from AXA, one of Europe's largest insurers. The global alliance created by this investment gives both companies an unprecedented opportunity to expand their worldwide presence and an almost unlimited potential for growth.

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THE EQUITABLE

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Chicago 1956; developed residential projects; still has 1,200 Manhattan apartments; frequently partners with Arthur Belfer *(which see)*. After 1970s real estate crash, bought older Manhattan buildings, built others; last year bought 70-year leasehold on elegant (but in need of rehab) 40 Wall Street for $77 million from the estate of Ferdinand Marcos. Still controls some 6 million square feet NYC office space. Burt runs show estimated over $300 million.

Jack Parker

Real estate, NYC; Boca Raton, Fla. 76. Married, 2 children. Former lumber salesman who went into business 1946, sold out 1954 to retire—stood it all of three weeks. Major developer NYC's borough of Queens 1950s; then in Manhattan, New Jersey, Florida. Earned estimated $150 million co-oping, invested in suburban office/hotel projects. Built NYC's Parker Meridien Hotel 1981. Grandson Adam Glick heir apparent. Parker's philosophy: Build lots of small projects instead of one big one (not counting Meridien). "We'd rather make a small profit than take a big loss." Now, "I'm trying to find something to do with my money." But with real estate in decline, his fortune estimated $300 million.

John Quentin Hammons

Hotels. Springfield, Mo. 69. Married, no children. Taught school, worked on Alaskan highway; WWII Navy. Postwar began concrete products business; went bust 1948, leaving Hammons $57,000 in debt. Undeterred, moved into building apartments, shopping centers; cleared debt in year and a half. With partner Roy Winegardner, purchased Holiday Inn franchises beginning 1959. After building 31 hotels, sold for HI stock 1970 (Roy later HI chairman 1979-83); kept building. Maintains 88 inns, including 5 Embassy Suites, and building more. Additional real estate across country. Endowed Springfield heart institute and architecture school. Not slowing down. "I've picked my retirement date—Oct. 1, 2011." Net worth estimated about $300 million.

AP/Wide World

William Herbert and Nelson Bunker Hunt

Sons and principal heirs of legendary Texas gambler and oilman H.L. Hunt, the boys were still billionaires and riding high in 1982. But their failed attempt to corner silver has since cost them almost everything.

Edmund Wattis Littlefield

BHP Utah International. Burlingame, Calif. 77. Married, 3 children. Grandson of E.O. Wattis, who cofounded UI's predecessor with famed Eccles banking family. At age 14, water boy for firm's construction crew in Ogden, Utah. Brief stint Standard Oil 1938; after WWII, worked for large dairy company. Moved over to UI 1951, became VP on condition he not have to hire founder's relatives; by time he was president 1961, Utah heavy in mining, ocean shipping, development. Merged with GE 1976 for nearly $2.2 billion, total new company (with minerals) then worth about $8 billion. Ed got GE shares worth about $73 million; has more than tripled to recent $275 million. With other assets, worth $300 million.

Walter Herbert Shorenstein

Real estate. San Francisco. 76. Married; 1 daughter, 1 son. Son of Long Island clothier; WWII air force. Real estate broker for SF firm 1946; partner 1951; bought company 1960 after founder died. Built to major player SF real estate: bought famous Bank of America building 1985 for $660 million (almost all debt). Much equity in more than 2.5 million sq. ft. other office space, 3 theaters run by daughter. Also manages 15.5 million sq. ft. office space SF, NYC, etc. Big-time Democrat backer. Grooming son as successor; daughter Carole successful producer (Tony award-winning *Fences*, etc.). Estimated worth over $300 million; he calculates it to be much over.

Melvin Simon

Shopping centers. Indianapolis, etc. 65. Divorced, remarried; 5 children. Brooklyn-born, raised in Bronx. Attended City College of New York. After Army, stayed in Midwest leasing retail space in shopping centers. Sent for brother Herb; pair started to develop shopping centers 1960. Made

fortune covering Midwest with unpretentious shopping malls. Now runs 66 million sq. ft., has ambitious projects: $600 million Mall of America with sports, amusement park, to open Bloomington, Ind. 1992; $400 million A&S Plaza already opened, midtown Manhattan mall on site of old Gimbels; the Forum at Caesars Palace, Las Vegas currently under construction; Hollywood Promenade to circle Mann's Chinese Theatre. Considering U.K., France. Mel's estimated worth $300 million, net of leverage. Herb: "Mel and I are just naive guys from the Bronx, right?"

Thomas Mellon Evans

Investments. NYC. 81. Divorced, widowed, remarried; 3 children by first marriage. After Yale, brought into business by W.L. Mellon, Gulf Oil boss and early hunter of poorly run companies. Thomas learned fast; hit jackpot with turnarounds that included bankrupt H.K. Porter 1938, Crane Co. 1959, over 80 others. Left Crane after losing board battle with son Shell. Despite pleas of son Edward, sold 22% MacMillan (publishing) stock. Now large holder Fansteel shares. Owns Buckland Farms, 3 horseracing, breeding sites in Ky., Va. Won Derby, Preakness with Pleasant Colony 1981. Total worth estimated more than $300 million.

Jerry J. Moore

Shopping centers. Houston. 63. Married, 3 children. Poor Polish immigrant parents; high school dropout. Started in plumbing; sold vacuum cleaners—some to buyers without electricity ("I told them the electricity was coming"). Began buying strip malls 1966; likes troubled properties for turnaround. Family in business. Lives in transplanted 40-room 18th-century French château. Bought Columbia Lakes resort, appraisal records state for $1.6 million; 650-plus vintage cars. Texas good ole boy style, not troubled by modesty: "You will never meet a guy who can shine my shoes. I am that good." Claims personal $200 million and $450 million-plus in family trusts, etc. On this year's evidence, total might be as much as $300 million.

Aaron Spelling

Television. Holmby Hills, Calif. 68. Divorced, remarried; 2 children. Raised in Dallas by Russian immigrant parents. High-strung kid: nervous breakdown age 8. To LA 1953, TV; successful producer. In 1970s, 1980s, many hits for ABC ("Aaron's Broadcasting Co."): *Dynasty, Love Boat, Fantasy Island, Charlie's Angels, Mod Squad.* Slowly fell out of favor. Took production company public 1986, merged with Carl Lindner's *(which see)* Great American Communications 1989. Scored with new Spelling production, *Beverly Hills 90210.* Sold rest of company to Lindner this year, reportedly for estate planning. Blew some $50 million on Holmby Hills supermansion. With syndication rights, believed worth at least $295 million.

Johnnie Bryan Hunt

J.B. Hunt Transport Services, Inc. Goshen, Ark. 64. Married, 2 children. Quit school eighth grade; worked in sawmills, auctioned livestock, joined Army, drove truck; tried starting businesses. In 1961 with wife used savings to start truck company; by 1969, 5 trucks, 7 refrigerated trailers. Now throughout North America; 1990 revenues $580 million. Nonunion; deregulation helped take business from competitors early 1980s; took public 1983. Formed Arkansas bank holding company 1985. Favors 10-gallon Stetson: "I don't like wearing a tie, but I would wear 2 ties if it would get another truck loaded." Son Bryan obvious successor. Stock, other assets recently worth about $295 million.

David William Grainger ★

Electrical equipment. Skokie, Ill. 63. B.S. U. of Wis. Married, 3 children. Son of William Wallace Grainger, an electrical motor designer and salesman who founded W.W. Grainger, Inc. 1927 (incorporated 1928) with $6,750 borrowed from his wife. U.S. factories were converting from DC to AC motors; sold motors, electrical parts. Went public 1967, retired 1968. Only son, David, took over; chairman 1968. Now a leading nationwide distributor. Catalog is main selling tool; company has also 350 sales outlets, over 1,000 direct salesmen; sales should top $2 billion calendar 1991. David: "The consumer shouldn't know the Grainger name." But customers do: His stock recently worth over $290 million.

Russell Solomon

Records. Sacramento. 66. Separated, 2 sons. "A hippie who learned to run a business." High school truant; college dropout, worked in dad's drugstore. Went broke. Reopened first record store Sacramento 1960; San Francisco store 1968, then largest in U.S. Today Tower Records sales over $540 million; also in England, Japan and looking to Singapore, Taiwan, etc. Wide selection of titles; videos, too. Store managers pick some stock. "There are more than 300 buyers out there instead of 1 or 2 . . . a lot more brainpower." Collects contemporary art. Company believed worth $290 million. Dislikes estimate: "Since the business isn't for sale, it's academic. I don't know what I would do if I had that much money."

George Leon Argyros

Real estate. Newport Beach, Calif. 54. Married, 3 children. Born Detroit, grandson of Greek immigrant, raised Pasadena; decided early real estate was the way to wealth: "If you work hard, it's one of the frontiers that is left." Michigan State, Chapman College; real estate license 1962, opened brokerage specializing in service stations; eagerly planned first subdivision 1963. Found good banker ("It's almost as important as your wife"), built creditworthy reputation, first apartments 1968; now owns 5,200 units. Also office parks, land. Bought baseball's Seattle Mariners for $13 million 1981, endured Big League's worst record, sold 1989 for aftertax profit over $50 million. Net worth estimated $290 million.

Alfred Lerner

Banking, real estate. Shaker Heights, Ohio. 58. Married, 2 children. Raised Brooklyn, family lived in 3 rooms behind father's candy store; Columbia grad. Earned $75 per week selling furniture, put savings in Ohio apart-

AP/Wide World

Robert Sutton
Going to court in 1981, charged with cheating on U.S. oil price controls. In 1982 he was estimated to be worth $150 million. In 1984 he was personally liable for $210 million. In 1986 he was in jail.

ment building. By 1979 could buy 11,000 Md., Pa. units with André Meyer (Lazard Frères) for $180 million. Was director small Cleveland bank: "That whetted my appetite." Bought control Equitable Bancorporation 1981, promised turnaround. Invested $75 million Progressive Corp. (high-risk insurance) 1988. Merged Equitable with Md. bank 1989; spun off MBNA 1991 as rescue tactic, owns 10%. Interest in Cleveland (football) Browns, stadium. Estimated over $290 million: "I'm no Joe Tycoon."

H. Wayne Huizenga ★

Blockbuster Entertainment, waste disposal. Fort Lauderdale. 53. Married, 4 children. Dropout (Calvin College) after 1½ years; joined friend's trash-hauling business. Bought own truck. Formed Waste Management, age 31; built to largest U.S. waste disposal company. Quit 1984. Bored. Bought 35% small Dallas video store chain. Saw success in big stores, wide inventory. Blockbuster Entertainment now leader; 2,000 stores, minimum 9,000 videos in each. Part owner Miami (football) Dolphins, Joe Robbie Stadium. Runs string of small businesses: life insurance, aircraft sales, real estate, etc. What now? "Work. More hard work." Expects same from employees. Wealth at least $290 million.

Oakleigh Blakeman Thorne

Commerce Clearing House. Millbrook, N.Y. 59. Divorced, remarried; 3 sons, 1 daughter. B.A. Harvard. Great-grandson of CCH's founder, who took over predecessor company; renamed 1927. Currently largest publisher tax and business guides for lawyers, accountants, other tax professionals. CCH boasts IRS its biggest customer. Owes its growth to paper-pushing bureaucrats. Electronic publishing, computerized tax service. Main company goals to offset competition, help future growth. Thorne family controls about 56%. Oakleigh's CCH stock, other assets worth some $285 million. At 700-acre farm upstate N.Y. breeds horses, raises cattle, looks after the vineyard.

Richard Alexander Manoogian

Masco Corp. Grosse Pointe Farms, Mich. 55. Married, 3 children. Son of Armenian immigrant Alex who began screw company 1929, went public 1936. Invented Delta single-handled faucet 1954; foundation of fortune. Now 90, worth $200 million. At Yale, son Richard ran investment company with roommates trading foreign securities. Joined dad, led 1960s diversification. From Masco Corp. (consumer), spun off Masco Industries (commercial products) 1984, TriMas (industrial) 1988. Acquisitions in past 4 years made company largest furniture and building products producer in world (over 200 plants). Executive: "We're the largest in almost everything we make." With American art collection, stock, etc., worth more than $280 million.

Lillian Goldman

Inheritance. Mill Neck, N.Y. 69. Widowed, 4 children. Widow of Sol Goldman, billionaire NYC real estate baron, d. 1987. Repeatedly says she helped husband's career by insisting he stop being mama's boy, quit family grocery business. Filed for divorce 1983; "reconciliation" deal gave her 33% of Sol's estate (270 properties Manhattan alone). Later sued to void deal; lost 1987. Trust created upon Sol's death. Children argued she was entitled only to income from her share, not control. Lil sued (again), won July. "The Goldman family is the best thing to happen to lawyers since the Magna Carta." Lil's 33%, etc. estimated about $280 million, children's share of estate (before inheritance tax) amounts to some $560 million. "My children have always known I would welcome them back to my bosom."

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Michael Ilitch ★

Pizza. Troy, Mich. 62. Married, 7 children. Born to struggling Macedonian immigrants. With wife, saved up, opened Little Caesar pizza parlor, Garden City, Mich., 1959. Added second 1961; saw chain possible. Now over 3,500 internationally. Recently growing over 25% a year; pizza market at 14%. Designed conveyor oven to get pizza out quickly, but juice is in marketing: "Two great pizzas, one low price." Bought winning Detroit (hockey) Red Wings 1982. Also started Olympia Arenas, manages Detroit's Joe Louis Arena and Fox Theater, etc. Established Little Caesars Love Kitchen for the poor 1985. Net worth estimated at least $280 million, perhaps higher.

Timothy Mellon
Catherine Mellon Conover

Siblings. Inheritance. Grandchildren of financier, empire-builder Andrew Mellon (d. 1937), children of Paul *(which see; also other Mellons, Scaife May, Curriers)*. Tim: Manchester, N.H. area. 49. Divorced, remarried; 1 stepdaughter. Business-minded despite inheritance: Launched computer programming firm 1969; cofounded company to pressure-treat railroad ties 1977. Acquired Guilford Transportation for $50 million: 4,700-mile track composed of old New England railroads. Added 1,000 miles unwanted Norfolk & Southern track after unsuccessful bid for Conrail. Countersuits with CSX over freight charges. Chapter 11, 1988 for one subsidiary (Delaware & Hudson Railway). Catherine: Washington, D.C. 55. Twice divorced (uses mother's maiden name); 3 children by first husband, John Warner (later senator). Divorce settlement: $9 million plus houses to John. Catherine antiwar activist, environmentalist. Catherine and Tim each received $100 million trust from grandfather 1960s. Father Paul says will leave them nothing, they have enough. If conservatively invested, should be worth well over $275 million each today.

Seymour B. Durst
Royal H. Durst
David M. Durst

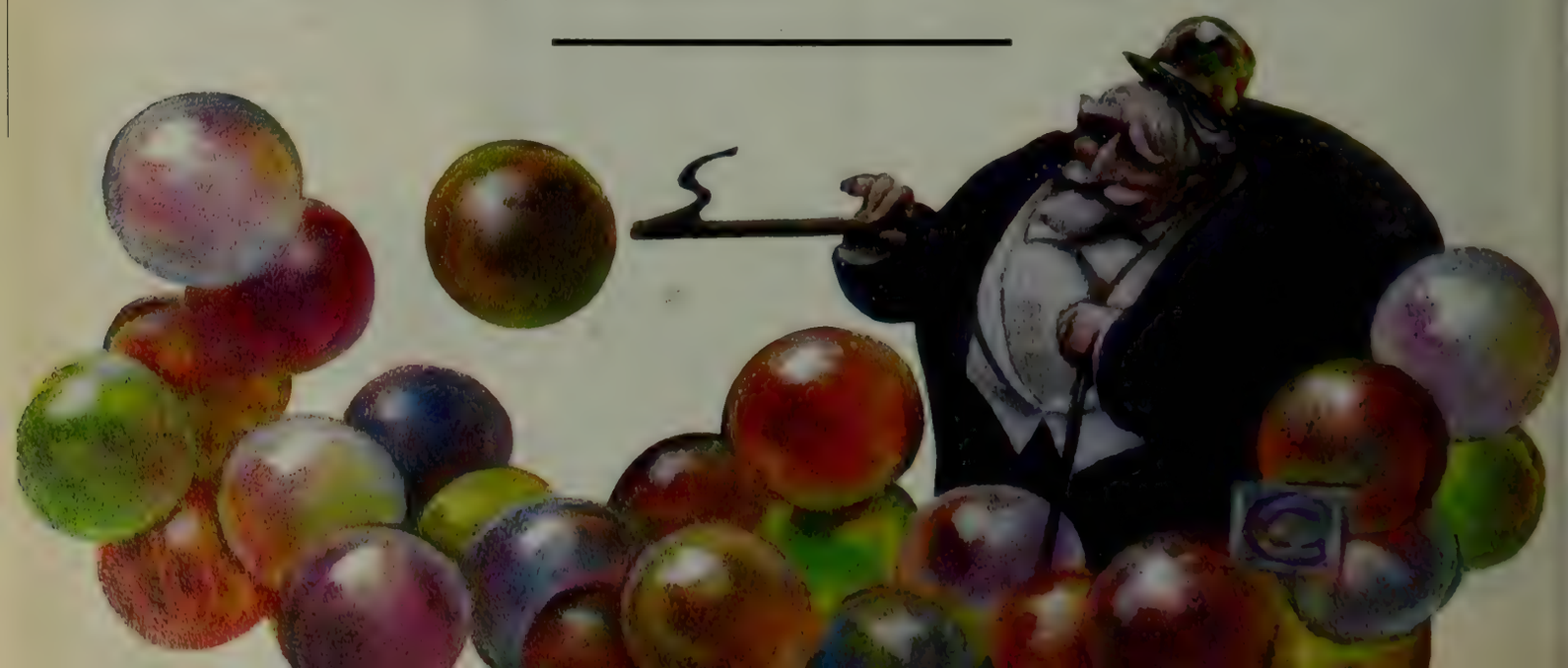
Brothers. Real estate. Father Joseph emigrated from Austria 1902; founded Durst Organization 1915 to manage Manhattan properties. Sons shifted emphasis from residential to midtown office space 1940s. Built several Third Ave. office buildings 1950s, moved over to Sixth Ave. 1960s, recently to Times Square area. Dursts control about 5 million square feet midtown office space. Very conservative financially, rarely take on partners. Seymour: NYC. 78. Widowed, 4 children. Trained as accountant, now heads Durst Organization. "We've felt everything in New York has been overpriced for the last ten years. We don't know where it goes from here." Roy: Scarsdale, N.Y. 74. Married, 3 children. Handles construction side. David: Chappaqua, N.Y. 66. Married, 5 children. Shares construction management with Roy, also leasing. Brothers share fortune still estimated over $825 million.

Leonard Litwin

Real estate. NYC. 75. Married, 2 daughters. Started in landscaping business with father on Long Island, retains valuable tree nurseries there. Branched out into apartment development. Pioneered postwar high-rises on, near, Manhattan's York Avenue; also invested in several Queens apartment buildings, Manhattan offices (recently unloaded, he says, for break-even price). Continues to build or buy at slow pace on Upper East Side. Stays out of public eye. Now owner of 23 Manhattan properties, at least 4,300 prime rental units; refuses to co-op: "Everybody who has a job in New York can't spend $500,000 on a co-op." Built a nice fortune too, estimated to be at least $275 million; he demurs.

William Alvin (Tex) Moncrief Jr.

Oil and gas. Fort Worth. 71. Married, 4 sons. Son of legendary Texas-born wildcatter W.A. (Monty) Moncrief. Had 4 years of dry holes, then blew one out on northernmost extension of vast East Texas field 1931. "My father had a nose for oil." Tex joined father 1945; Dad coached Tex on deals. Sr. died 1986; left estate to grandchildren. Tex continued on; "awesome" gas find Wyoming (possible 1 trillion cubic feet in reserves) 1988; well "shut in" until refinery is built. Also other big finds. Never takes long vacation but relaxes sometimes on 100,000-acre Colorado ranch, plays golf with fellow oilman John L. Cox *(which see)*. Fortune estimated at $275 million.



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Great family fortunes

Some very wealthy families have fortunes already so divided that no individual among them qualifies for The Forbes Four Hundred. This listing is extensive but not intended to be as complete as our listing of the richest individuals in America. Most are the heirs of persons who would have been members of The Forbes Four Hundred had it been compiled in earlier decades; some are families still in the accumulation stage.

Andersen

Bayport, Minn. Danish immigrant Hans Jacob Andersen, arrived Portland, Me. 1870. First words in English, "All together boys," became company motto. With sons founded Andersen Lumber Co. 1903. Standardized wooden window frames with interchangeable parts, revolutionized building industry 1904. Signed first profit-sharing check hours before his death. Son Fred took helm, emphasized advertising: "Only the rich can afford poor windows." Andersen Corp. leading U.S. windowmaker, about 15% market share (1990 estimated sales over $1 billion). Profit sharing seems to work: employees' bonus over 62% 1989 salary; margins reported higher than previously estimated. Family's 70% estimated some $750 million.

Bacardi

Puerto Rico, Miami, et al. Descendants of Don Facundo Bacardi y Maso (b. 1816), Spanish-born wine merchant immigrated to Cuba 1830; made "civilized rum," formed Bacardi Co. 1862, now world's most popular brand. Sold 23 million cases worldwide 1990. Generations of Bacardis work in various private companies: Bacardi Corp. of Puerto Rico sells to Bacardi Imports of Miami; both pay royalties to Bacardi & Co. Ltd. Bahamas. Family factions in 5-year-old bickering: less powerful shareholders want voice, say financial information withheld. SEC also wants financial information, company says it is private and won't comply. Some 500 Bacardis share fortune estimated $750 million.

Bancroft

Inheritance. Descendants of media magnate Clarence Barron (d. 1928). Acquired Dow Jones & Co. 1902, publisher of Wall Street Journal; Dow Jones ticker; Ottaway newspapers (Barron's). Clarence's adopted daughter Jane wed Harvard lawyer Hugh Bancroft (d. 1933). Three children split fortune: Jane Bancroft Cook *(which see)*; Jessie Cox, d. 1982 (3 children); Hugh Bancroft Jr., d. 1953. Hugh's 4 children inherited his share: daughter Bettina Klink a Dow Jones director since 1982. Sister Kathryn, brothers Hugh and Christopher all avoid publicity. Three branches share Dow Jones fortune worth at least $1.5 billion.

Robin Platzer

Judy (ex-Miss Israel) and A. Alfred Taubman on the town

After a brilliant mall-building career, his suburban real estate, shopping malls, urban department stores and Sotheby's art auction galleries are being mauled by recession, consumer retrenchment and a wrenching return to reality in the price of art.

Bean (Gorman)

Freeport, Me. Descendants of Leon Leonwood Bean (1872-1967), sportsman, founder L.L. Bean, Inc. Tired of cold, wet feet, put rubber bottoms on leather shoes. After 90 of first 100 pairs returned defective, introduced Bean money-back guarantee, still in effect. Maine's first hunting licenses 1919 inspired first-ever direct-mail marketing campaign; sales passed $1 million 1937. "That wasn't bad for a boy who never got through the eighth grade." Today's president grandson Leon Gorman, 56; encouraged advertising, broadened women's line; now scaling back expansion to protect quality, service. 1990 sales near $600 million. Fifteen reclusive descendants believed to control company worth around $400 million.

Belk

Charlotte, N.C. Descendants of brothers William and John Belk, who opened N.C. general store 1888. Gave no credit, bought out credit-granting rivals for pennies on the dollar. Empire grew out of 13 stores 1913; today some 320 stores, estimated sales $2.2 billion, aggressive on keeping costs down: "I don't reckon we got a system, we just sell goods." Some 25 descendants share ownership with local owner-partners; each store a separate corporation. Family history of feuds, lawsuits. William Jr. ousted as chairman 1950s; tried but failed to thwart brother John's Charlotte mayoral career (1969-77). John now chairman of BSS; brother Tom president. Family's interest estimated about $450 million.

Bingham

Newspapers. Descendants of Robert (Judge) Bingham; lawyer, mayor of Louisville, ambassador to Britain. Married Mary Lily Kenan Flagler, one

of nation's richest women, 1916. Bought majority Courier-Journal, Louisville Times 1918, after wife's mysterious death (rumors of poisoning abounded). Died 1937. Youngest son Barry Sr. took control, bought out siblings. Added broadcasting; company 7-time Pulitzer winner during tenure. Son Barry Jr. became editor, publisher 1971. Power struggle among siblings forced Barry Sr. (d. 1988) back on scene; culminated in $400 million liquidation 1986. Media whirlwind engulfed the "Kennedys of Kentucky"; 4 books to date. Net of taxes, 13 family members estimated at $350 million.

Block

NYC area. Heirs of Alexander Block, Russian immigrant who opened Brooklyn retail drugstore 1907; expanded to manufacturing. Today Jersey City-based Block Drug Co., makers, marketers pharmaceuticals, household products: Polident, Sensodyne, Nytol, 2000 Flushes, etc. Block has earmarks of well-run family business: careful, low-risk expansion, little debt. Cares little for Wall Street analysts, press. Aggressive sales force. Basic strategy: cut niche in market, build on it. Two generations share power in executive suite: Leonard Block, 79, senior chairman, lives in Manhattan's silk-stocking turf. Sons: James, 54, chairman; Thomas, 46, president. Family owns 100% voting stock, over 50% nonvoting shares, recently worth some $700 million.

Brittingham

Mexico, Dallas. Los Angeles-born brothers Jack and Robert saw place for ceramic tile in post-WWII building boom. Chose Dallas headquarters for proximity to Mexico, where tile is produced, labor cheap. Started 1944; later became Dal-Tile Group; built firm into one of largest U.S. ceramic tilemakers. Brother Jack, a.k.a. Juan, moved to Mexico to run company's manufacturing arm. Robert ran Dal-Tile in U.S., kept out of sight. Sold out last year to AEA Investors Inc., an exclusive New York-based investment group composed primarily of former corporate chief executives; also Henry Kissinger. Buyers just as secretive as sellers. After full allowance for taxes, brothers still netted at least $470 million.

Brown

Brown-Forman Corp. Louisville, Ky. Heirs to George Garvin Brown, who founded JTS Brown & Brother with half-brother 1870. Became Brown-Forman 1890, family control ever since. William Lee Lyons Brown Jr., CEO since 1975, is son of W.L. Lyons Brown (CEO 1951-71), who was son of Owsley Brown (CEO 1917-51), who was son of George Garvin Brown. Present CEO's brother, Owsley Brown II, president; their cousin, Owsley Brown Frazier, vice chairman. A leading U.S. liquor power: Jack Daniels, California Cooler, Southern Comfort, Korbel, etc. As alcohol taxes go up and per capita consumption down, diversifying slowly: acquired Lenox china 1983, Dansk International Designs this year. Family's stock recently over $1 billion.

Bullitt

Broadcasting. Seattle. Pioneer C.D. Stimson amassed Washington State timberland, real estate (d. 1929). Daughter Dorothy married state Democratic kingpin A. Scott Bullitt (d. 1932); ran business after husband's death. Bored, bought radio station 1947, then area's first TV station 1948. "The station came before the sets." Built broadcasting company. Rafted Colorado rapids at 85, died 1989 at 97. Daughters Priscilla Collins, 70; Harriet S. Bullitt, 66, sold 6 television stations, cable systems April for reported $575 million. Much to Bullitt Foundation for environment. Brother Stimson, 70, with no broadcasting inheritance, runs Harbor Properties real estate. Excluding foundation, family estimated at $400 million.

Busch

St. Louis. Descendants of Bavarian immigrant Adolphus Busch, who married Lilly Anheuser 1861. Sold brewery supply business, joined father-in-law's brewery 1866. Company survived Prohibition by diversifying: corn syrup, soft drinks. August Jr. joined 1922, president 1946. Steered into modern times with Busch Gardens theme parks, St. Louis (baseball) Cardinals; solid promotion that made Budweiser King of Beers in U.S. With 1990 sales $10.7 billion, company dusts industry: 44% market share, including all Anheuser-Busch brands; 1 of every 4 beers drunk in U.S. a Bud. Died 1989. August III, at helm several years, diversified into food products, expanded theme parks. Fifth-generation August IV ready to follow, 27 years after taking first sip of Budweiser (at age 10 hours). Family shares recently $1.3 billion.

Campbell

Hawaii et al. Progenitor James Campbell left Ireland as 13-year-old stowaway to join brother in NYC 1839. Survived shipwreck, capture by cannibals, arrived Hawaii 1850. Bought vast tracts arid land against skeptics' advice; irrigated with artesian wells, built rich sugar plantation. Dubbed "Kimo Ona-Milliona" (James the Millionaire) by native islanders; d. 1900. Estate now 76,000 Hawaiian acres. Committed to preserving agriculture but slowly selling well-located parcels, buying mainland office buildings, shopping malls at depressed prices. Last surviving daughter, Beatrice Campbell Wrigley, died 1987; trust dissolves 2007; numerous family members will divide fortune now estimated $675 million.

Caruth

Real estate. Dallas. William Barr Caruth with brother Walter started general store Texas 1849. Bought land with profits—$5, $10 an acre; by early 1900s up to 20,000 acres, much now known as North Dallas. William's son Will Sr. expanded to some 30,000 acres. Grandson Will Jr. wrote self out of father's will, left majority to grandchildren with himself managing. Most land gradually developed, liquidated to pay off debt. Grandchildren not active in business: "I deprived them of a growling in the gut, which is the greatest motivating factor you can have." Will Jr., 78, terminally ill, suicide 1990; left handpicked managers at helm of family's Central Control Co. Had amassed over $100 million

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for Caruth Foundation; more than $300 million given away. Fortune still believed to be worth at least $500 million.

Chandler

Los Angeles et al. Times Mirror Co. Scions of Harry Chandler, clerk at Los Angeles Times who married daughter of owner Harrison Gray Otis 1880s; rose to chairman. As media tycoon, clever marketing squeezed out rival papers. Built real estate, media empire. Died 1944. Son Norman won over readers by running news instead of ads in WWII print shortage. Became 8 dailies including Newsday, Baltimore Sun; 11 magazines (Field & Stream, Popular Science); broadcast, cable TV. Family separated private holdings from big company early 1970s. Grandson Otis Chandler quit as editor-in-chief 1986, now all professional managers. Over 100 family members share Chandler trust, recently at least $1.3 billion.

Clark

Cooperstown, N.Y. Heirs of Edward Clark (1811-82), helped Isaac Singer sell sewing machines 1850s. Gained 40% of Singer Manufacturing Co. His 4 grandchildren made eyebrow-raising claim 1939: America's favorite pastime invented in Cooperstown; opened Baseball Hall of Fame. Also other museums, hospital, hotel, golf course, town gym, etc. Three died heirless. Now there are Stephen C. Clark Jr., 80; niece Anne Labouisse Peretz, 53, co-owner New Republic magazine; nephew Alfred, 48 (has NYC investment company), to run Cooperstown. Smart investments by NYC-based Clark Estates Inc. keep estimated fortune at least $390 million for these and 9 other Clarks; equivalent amount in foundation.

Collier

Inheritance, investments. Naples, Fla. et al. Descendants of Barron Gift Collier, high school dropout. Advertising whiz, used streetcars instead of billboards. Bought southwest Florida land from 1911, eventually amassed 1.3 million acres (Collier County, etc.). Died 1939. Current heirs disagreed on strategy. Split empire with coin toss 1980. Branch A: Collier Enterprises. Miles, 44, married, Columbia M.B.A., leader; controls 72,000 acres agriland, 2,800 acres Naples, 5,900 acres citrus groves, Okla. City's Local Federal Savings & Loan. Building Tampa office park. Branch B: Barron Collier Co., 3 main heirs: 72,000 acres agriland, 5,000 acres Naples, 10,000 acres citrus; developing 80 acres downtown Phoenix. Combined fortune estimated at $1 billion.

Rick Friedman/Black Star

Kenneth Olsen
In the 1960s and 1970s Olsen built minicomputer maker Digital Equipment Corp. into an industry giant, second only to IBM, propelling himself to a Forbes Four Hundred fortune by 1982. But since then PCs and workstations have undercut minicomputers and made Olsen a Forbes Four Hundred also-ran.

Coors

Golden, Colo. Heirs of German immigrant Adolph Coors, who built small brewery 1873. Survived Prohibition making malted milk, pseudo beer. Introduced then revolutionary aluminum can 1959; went public 1975. Grandsons William, Joseph built company, spurred controversy with antigay, antiminority, antiunion policies; cofounded Heritage Foundation 1973. Ten-year union-led boycott ended 1987, unions let in. Now great-grandsons Peter, Jeff, Joe Jr. run firm, with more diplomacy. Third-largest in U.S.: 9.9% market share. Peter: "My goal for the 1980s was to be number three and growing. My goal for the 1990s is to be number two and growing." Watch out, Miller. Family's 54% recently $415 million.

Cowles (Gardner)

Print media. Minneapolis, NYC et al. Descendants of Gardner Cowles Sr., who bought troubled Des Moines Register 1903, added evening Tribune, built respectable paper (d. 1946). Son John Sr. (d. 1983) did same with Minneapolis Star 1935. Brother Gardner Jr. founded Look magazine; sold Florida papers, Family Circle, etc. to New York Times for 23% of NYT stock 1971 (d. 1985). Third generation blew profits, lost some papers; sold Cowles Broadcasting to Oveta Culp Hobby *(which see)*

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1984, flagship Register to Gannett for $200 million 1985. Grandson David Kruidenier, 69, chairman Cowles Media (2 dailies, more than 20 special-interest magazines). Over 70 heirs with 70% Cowles Media plus NYT stock, estimated worth about $525 million.

Cowles (William)

Spokane. Descendants of William Hutchinson Cowles, Chicago Tribune heir (also distant relative of Gardner Cowles, *see above*); police reporter for Tribune, moved West 1891, bought into Spokane Spokesman-Review. Gained control 1894, bought rival Chronicle 1897. President Truman called Spokesman one of "the two worst papers in the country." Taken as compliment. Invested in timberland, paper mill, started Inland Empire Paper Co. William Jr. added radio 1946, TV 1952. Now grandsons: James, 57, manages paper mill, downtown Spokane real estate; William 3rd, 59, runs newspapers. Very private. Handful of descendants share Cowles Publishing, large Tribune stake, etc., estimated worth $450 million.

Cullen

Houston. Inheritance. Descendants of Hugh Roy Cullen (d. 1957), grade school dropout, cotton trader, legendary wildcatter, gave away 90% of $200 million fortune. Favorite strategy: drill deeper in "dry" holes, find oil. Hit famed Tom O'Connor field early 1930s. Began Quintana Petroleum 1932, operates oil and gas wells for family, outfits like Exxon. Only son was killed in oil rig accident 1936. Four daughters inherited Quintana; 3 daughters' husbands run it. (Fourth daughter married Italian playboy "Baron" di Portonova, lived in solitude in seedy Manhattan hotel, died 1966.) Son-in-law Corbin Robertson leads family; 5 branches (over 30 members) share Quintana, oil and gas properties worth an estimated $500 million.

Dayton

Minneapolis. Banker George Draper Dayton snapped up new vacant building in downtown Minneapolis 1902, bought dry goods company to fill space. Founded Dayton's department store. Son George Nelson Dayton took over 1938, raised 5 sons on isolated 800-acre farm to instill family values. By 1950, brothers took over store, catapulted company to national prominence. Merged with J.L. Hudson Co. 1969; Dayton Hudson later acquired: B. Dalton Bookseller, Target, Lechmere; Marshall Field's & Co. 1990. Also merged with Mervyn's 1978. Last brother retired from management 1983. Company tradition since 1946: donate 5% taxable income. Fifty descendants share fortune estimated over $1 billion.

de Menil

Houston, NYC. Heirs of physicist Conrad Schlumberger, who developed "well-logging" 1920s. Became oil exploration essential: fine-tuned location, depth of oil. U.S.S.R. first to try Schlumberger Ltd. service (Conrad, a socialist, pleased). Died 1936. Company dominant in field since. Daughter Dominique, now 83, fled Nazi-occupied Paris to firm's Houston headquarters. Husband John de Menil headed firm 1967-70 (d. 1973). Over half respected 15,000-piece art collection to Menil Collection museum, Houston. Very active in human rights: started Carter-Menil Foundation with Jimmy Carter. Her 4 children have own art collections. This branch Schlumberger family worth over $445 million.

de Young

San Francisco, et al. Descendants of Michael H. de Young, founder San Francisco Chronicle with brother Charles 1865: epitomized "yellow journalism," entertained with racy scandals, mudslinging. Mayor's son shot Charles dead 1880; Michael shot 1884, survived. Warred with archrival Hearsts *(which see)*, but signed one of largest newspaper joint operating agreements with Hearst Examiner 1965. Now Chronicle Publishing 6 dailies, 5 TV stations, cable (300,000 subscribers). Today great-grandson Richard Thierot, 49, president; Chronicle editor-in-chief, publisher from 1977. But cousin Nan McEvoy chairwoman. Nineteen heirs (other than Nan and son) control almost 75%; estimated worth $750 million.

Donnelley

Chicago origin. Descendants of Richard R. Donnelley (d. 1899), Canadian saddlemaker's apprentice who became partner in Chicago print shop 1864. By 1868 shop publishing, printing 23 journals. In 1871 burned down in Great Fire, rebuilt into R.R. Donnelley & Sons 1882. Son Reuben (d. 1929) established publishing house acquired by Dun & Bradstreet 1961. Grandson Gaylord, Thomas' son, took over main family company 1964. A Chicago icon, Gaylord fished with Hemingway; now retired "honorary" chairman, age 81. Company grown to world's largest commercial printer, serves Time, Newsweek, TV Guide, et al. Donnelley descendants, with 18% of stock, worth nearly $1 billion.

Duda

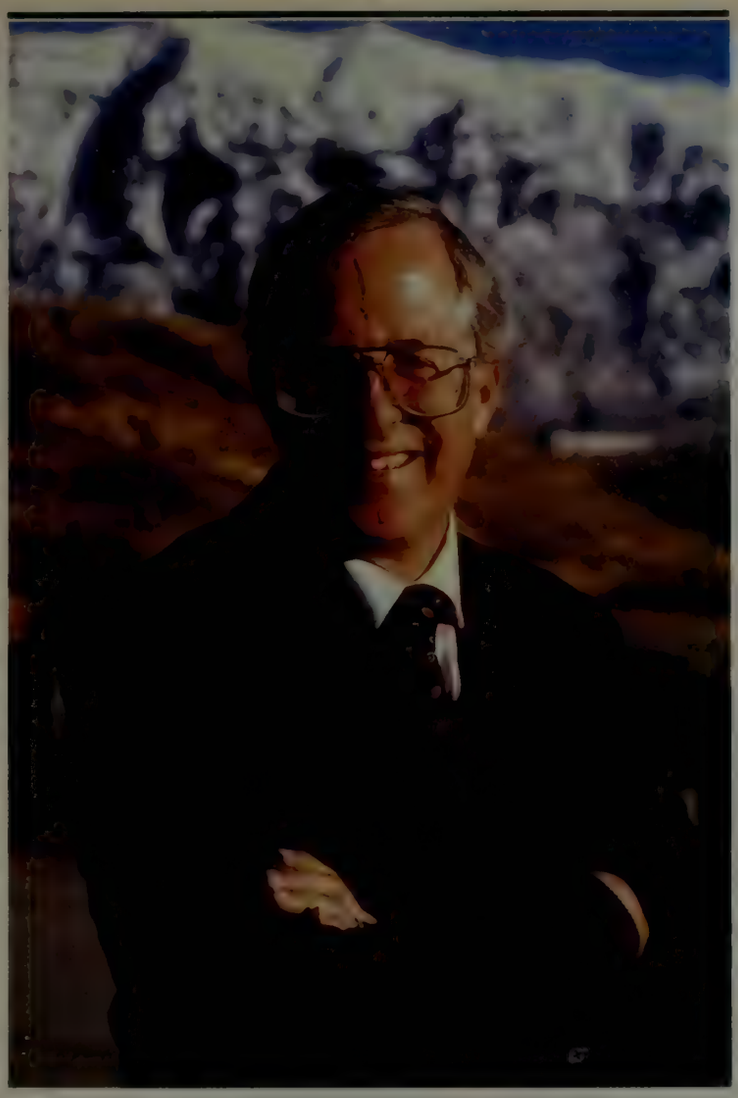
Agriculture. Oviedo, Fla. Czech immigrant Andrew Duda (d. 1958) left Cleveland, arrived Fla. 1909 to start religious farming community. Went broke, returned to Cleveland 1916; back to Fla. 1926 again, just to farm. Planted 10 muckland acres of celery, plowed profits back into company: "It was a good investment." Three sons—John (d. 1988), Andrew Jr. (d. 1986), Ferdinand, 81 (none went past ninth grade)—planned retirement, company passed smoothly to third generation 1977. Today A. Duda & Sons, one of nation's largest vegetable growers. Also real estate development. Estimated 60 family members share land, citrus, vegetable empire worth at least $325 million.

Heirs of Pierre Samuel du Pont II

Wilmington, Del. Descendants of Pierre Samuel du Pont de Nemours (1739-1817), French Physiocrat who fled revolutionary terror for America 1800. Son Eleuthère Irénée, chemist's apprentice, founded gunpowder factory on Brandywine Creek 1802. Company and family prospered, dominated Powder Trust late 1800s.

After family battle for company control, Pierre S. du Pont II emerged as leading figure, with 2 cousins, 1915. Lucrative World War I munitions contracts led to vast growth, profits, despised sobriquet "Merchants of Death." Founded Christiana Securities as family holding company for Du Pont (merged into Du Pont 1977 under government antitrust pressure). Rescued nascent General Motors 1920s, about one-third interest. Also Hercules Powder Co., U.S. Rubber (later Uniroyal), etc. Bought out cousins in further struggles for control of Du Pont. Childless, Pierre divided bulk of fortune among siblings and nephew before death in 1958. His family branch built up Wilmington Trust Co., while dissident branches established Delaware Trust Co. Numerous descendants of Pierre II siblings still control over 15% of Du Pont; are the wealthiest du Ponts by far. Says one family member: "The thing about the du Ponts is that some are very, very rich, and the others are just plain old rich." This branch (including the listed individuals) has estimated worth over $8.6 billion. Numerous collateral du Pont families, many also wealthy.

Ravell Call/Picture Group



Alan C. Ashton
The biggest problem facing his WordPerfect Corp. is what to do for an encore in the 1990s. His word processing program still dominates the field. But few hot software publishers aside from Microsoft come up with a second big winner.

Firestone

Tires. Akron, Ohio et al. Descendants of Harvey S. Firestone (d. 1938), industrialist, saw future in rubber: "An automobile industry without a tire is useless . . . without rubber we cannot carry on at all." Put in $20,000 startup capital to form Firestone Tire & Rubber Co. 1900. Turned company into leading supplier of automobile tires. Long run by family: Sons Harvey Jr., Leonard and Raymond were company executives. Firm fell on hard times 1980s; acquired by Bridgestone Corp. for $2.6 billion ($80/share) 1988; renamed Bridgestone/Firestone. By time of merger, family shares mostly sold off. Family estimated worth over $300 million.

Gore

W.L. Gore & Associates. Newark, Del. Founder Wilbert L. Gore (d. 1986) Du Pont employee, worked on Teflon 1957. Du Pont not interested in selling finished Teflon goods; Wilbert, wife Vieve started own business 1958. First insulated cable; then Gore-Tex—durable fabric later used in space suits. Son Bob took over 1975. Company best known for sportswear, raincoats, etc., but also medical (surgical patches, artificial ligaments), telecommunications (cables), industrial products (filters). Original patent expires 1993, but "We've patented hundreds of uses and we expect to come up with hundreds more." Sales estimated near $675 million. Employees getting stock. Family shares still estimated worth $500 million.

Graham

Washington, D.C. Washington Post Co. Eugene Meyer, retired Wall Street banker, bought bankrupt company 1933 out of boredom. Daughter Katharine's husband, Philip Graham, took over 1946, restored Post; bought Newsweek 1961. Philip: mental illness, suicide 1963. Housewife Kay took over. "I quickly learned that things don't stand still. You have to make decisions." Made newspaper enormously successful; it broke Watergate story 1972. Led acquisitions TV stations, cellular franchises. Now media empire. Son Donald, 46, joined Post 1971 as reporter, CEO last May; Kay, 74, stays chairman. Donald: "My mother has given me everything except an easy path to follow." Family's Post shares recently worth over $360 million.

Gund

Cleveland origin. Six children of George Gund Jr. (d. 1966), Harvard Business School grad, liquidated family brewery during Prohibition, bought decaffeinated coffee company 1919. Sold to Kellogg 1927; now Sanka at General Foods. Invested real estate, Cleveland Trust (became president 1941). Sons George III, Gordon own Cleveland (basketball) Cav-

aliers, stadium. Sold Minnesota (hockey) Northstars to get new San Francisco NHL franchise 1991. George owns advertising agency in Nevada, Washington. Gordon, blind from retinitis pigmentosa, venture capitalist in Princeton, N.J. Sister Agnes, art collector on board New York's Museum of Modern Art, etc. Brother Graham noted architect. Family worth at least $1.3 billion.

Haebler

International Flavors & Fragrances. Descendants of American-born William T. Haebler, who founded IFF 1929 with Dutch immigrant A.L. van Ameringen. Major investments in plant, equipment 1950s, 1960s. Today leading maker products adding flavor, odor to perfumes, soaps, drinks, etc. Spends heavily on research. Does not disclose clients, but reportedly makes scent for Calvin Klein's perfume Eternity. William set up trust for daughters Polly, Ellen and Ann. Polly: Milwaukee. Married to William van Dyke III, Smith Barney executive who likes fishing in Alaska; 3 daughters. Ellen: Darien, Conn.; Key Largo, Fla. Married to Philip Skove. Ann died 1988. IFF interests Polly, Ellen, Ann's 2 sons recently worth $555 million.

Hillenbrand

Batesville, Ind. et al. Augustine Wilhelm Hillenbrand, German immigrant, left New Orleans 1837 for Batesville. Son John started furniture business 1881, then expanded into caskets. His son John A. bought bankrupt coffin company 1906. First to mass-market air- and watertight caskets 1940. Hill-Rom created in 1929: manufacturer of hospital beds, the first producer of electrically operated beds 1950. Hillenbrand Industries acquired luggage company American Tourister 1978, Medeco Security Locks 1984, SSI Medical Services 1985; also still world's leading casketmaker. Company stresses efficient manufacturing, innovative design and aggressive marketing. Daniel A. Hillenbrand, 68, chairman; W August (Gus), 51, his nephew, president. The family's 63% recently worth $1.1 billion.

Hixon

Pasadena. Joseph Hixon ensured fortune with major investment in AMP stock; increased holding to 45% by 1959. AMP became leading producer electronic connectors for computers, appliances; custom designs production machines to fit customers' assembly lines: indispensable supplier. Current generation merged family holding company Midland Investment into AMP 1981. Joseph's son Frederick (d. 1978) moved to San Antonio, invested in ranches, oil, venture capital provider. Another son, Alexander, AMP director until 1987; lives Pasadena, travels, golfs; wife Adelaide volunteers: United Way, Planned Parenthood. Family shuns press. Original AMP holdings, if still fully retained, exceed $770 million.

Horvitz

Cleveland area; Fort Lauderdale. Three sons of Samuel A. Horvitz, self-made media, real estate mogul. Street-corner newsboy, educated to eighth grade. Founded road construction company 1916; later, real estate development firm, acquired 5,000 Florida acres; added 2 Ohio newspapers. Left fortune in trust 1956 divided among adversarial sons: Harry ran newspapers; Leonard, construction; William, real estate. After mother's death 1977, brothers' feuding ended in fistfights, lawsuits. Exasperated probate judge liquidated trust 1986. Brothers say life now "much better; all at peace, all getting along." Today the family believed worth at least $750 million, possibly much higher: "It's just three families each running their own pot."

Hoyt

NYC area, Santa Fe. After Princeton, Henry Hamilton Hoyt left successful import-export business. Entered father-in-law's company, maker of Carter's Little Liver Pills. By 1929 managing director; bought control anonymously, cut dividends. Enlisted chemist John Wallace to develop new products: Arrid deodorant, Nair hair remover, Rise shaving cream. During WWII: foot powder for GIs. "Liver" dropped from pills after 17-year government suit resolved 1959. Grew through acquisitions from 1960s. Carter-Wallace stock spurred by AIDS scare: Trojan condoms acquired 1985, now over 50% market share. Henry Sr. died last year at 95. Sons Henry Jr. and Charles run company. Family shares recently worth $625 million.

Hughes

Fortune built by legendary tycoon Howard Hughes Jr. Father patented oil-well drill bit 1909; Jr. inherited age 18; made movies, set flying records, created Hughes Aircraft, owned TWA, dabbled in Hollywood. Turned weird, secretive. Died 1976, no will, no immediate family. Bulk of fortune in Howard Hughes Medical Institute. Cousin William Lummis took over Summa Corp.; assets estimated $168 million 1976. Five-year search for heirs, dozens of funny claims; built up real estate; today still holding 900 acres LA, developing 25,000 acres near Las Vegas. Hughes hated lawyers, but law firms may be biggest beneficiaries. Lummis next at about 3.5%. Over 100 people share in estate; over $500 million distributed.

Hunting
Idema
Wege

Steelcase. Grand Rapids, Mich. Peter Wege (d. 1944), sheet metal worker and holder of 6 patents, got idea for fireproof metal office furniture; launched own firm 1912. Big success with first metal wastebasket. Prospered 1920s, survived Depression. Patented modern-day suspension cabinet 1934. Changed company name to Steelcase 1954. Henry Idema (d. 1951) one of original investors. David Hunting (now 99) joined after, brought other investors. Became sales chief, now board member. Henry's son Walter (d. 1979) set up financial controls; daughter Mary married current chairman, Robert Pew, 68. Policies: tight control, quality design; good pay, benefits in nonunion shop; aggressive marketing; independent—exclusive dealerships (over 500). Leader in office furniture: fiscal 1991 sales $2.24 billion world-

wide. Corporate culture encourages creativity; actively aquired small design firms to produce more interesting furniture. Three families share company valued at $2 billion.

Irvine

Inheritance, lawsuits. Middleburg, Va.; Corona Del Mar, Calif. James Irvine built Orange County cattle empire. Son James Jr. farmed. When heir James III died of tuberculosis mid-30s, Jr. set up foundation run by business cronies with 54% of 120,000-acre ranch; drowned suspiciously 1947. Second son Myford, gambler, died of "self-inflicted" gunshot wounds. James III's widow Athalie, daughter Athalie ("Joan") inherited 22%. Joan, 58, filed over 20 lawsuits for asset mismanagement; won. Joined Taubman-Allen-Bren *(see all)*; Irvine Ranch buyout 1977, sold 11% for $76 million, reinvested; held 11% new company. Bren bought control 1983; Joan sued for better price; recently got over $250 million in settlement. She, mother share estimated $350 million.

Jenkins

Publix Super Markets. Lakeland, Fla. George Washington Jenkins, 84, worked for Piggly-Wiggly for 4 years, then "hitchhiked to Florida in 1924 with $7 in his pocket." Founded Publix 1930, named after a movie theater chain: "My father liked that name," says Howard, one of George's 5 living children (1 son deceased). By 1950, 21 stores; by 1991, 386, all Florida. Chairman Howard, 40: "Florida is the fastest-growing state in the country, and we didn't feel like we should grow any faster than that." But now 2 stores under construction, planned in Georgia. Company's 66,000 employees own all Publix shares; 1990 sales of $5.8 billion. Family's portion worth over $640 million.

Jordan

Boston origin. Retailing, publishing. With $1, 14-year-old Eben Jordan set off from Danville, Me. 1836 for Boston. Worked as a farmhand, errand boy. In 1851 started retailer Jordan Marsh with partner Ben Marsh (eventually sold to Allied Stores). Invested wisely: funded Charles Taylor's *(see family)* revived Boston Globe. Jordan's heirs still hold big piece of umbrella Affiliated Publications. Family shared in killing in 1980s from Affiliated's investment in McCaw Cellular, 1989 spinoff. Prominent Jordan: Dorothy (Mrs. Randolph A. Kidder), 2 children. Family trust still has about 13 million shares Affiliated, 11 million McCaw; trust terminates 1996, when stock will be distributed to family. Shares recently tipped scales at $645 million.

Kaskel

NYC. Father Alfred (d. 1968) built Doral Hotel & Country Club, Miami; bought four rundown NYC hotels early 1960s. Son Howard now runs 3,000-room, respected Doral chain. Also Carol Management, runs apartments NYC, Chicago, Conn.; also prime NYC office space. Nephew Steven Schragis launched Carol Publishing and Birch Lane Press 1989. Kaskels paid $60 million for Westchester hotel/conference center 1986. Lost 1987 Kansas City Southern takeover bid, sold 11% 1988 for no gain. Colleague: Howard, 54, "doesn't have the personality of a raider." Real estate recession took toll on holdings shared by Howard, 2 sisters: Family estimate down to $400 million.

Kelley

Honolulu. Roy Cecil Kelley, USC architecture grad, arrived Hawaii 1929. Designed landmarks, homes. Borrowed $10,000, built first apartment house 1933. Witnessed Pearl Harbor attack from rooftop. "Wizard of Waikiki" foresaw islands' potential as middle-class "tourist factory." Built first hotel 1947 planning on high occupancy, low rates: "Our whole attitude was utilitarian." Utilitarianism successful enough to build 9,000-room Outrigger Hotel chain, Hawaii's largest (owns 15, manages 11); growing mainland presence. Recently purchased a southern California Clarion hotel (business clientele). Roy, 86, retired; son Richard, 58, Harvard-trained pathologist, now in charge. Family fortune estimated at $400 million.

Kennedy

Boston origin. Joseph Patrick Kennedy (d. 1969) rose from modest south

Fred Smith: winning, but getting whipped by technology

Smith trounced the Postal Service with overnight air package delivery. It worked brilliantly: Federal Express monitored everything by computers, from the instant the driver put the package in the truck. But cheap fax machines everywhere zapped his ZapMail faxing service and cost Fed Ex $350 million. Now the company is spending heavily as it tries to grow overseas.

Boston beginnings to bank president age 25. Wall Street speculator, went short before 1929 crash, huge gains. Later outlawed own trading methods as first head SEC. Married Rose Fitzgerald, daughter of Boston mayor (Honey Fitz), 1914. From 9 children emerged political dynasty, tragedy. Son Joe killed World War II; daughter Rosemary retarded. John F., senator, President, and Robert F., senator, attorney general, both assassinated. Edward M., senator, presidential chances destroyed at Chappaquiddick. William Kennedy Smith, Joseph's grandson, awaits Palm Beach rape trial. Family wealth apparently less than previously believed *(see p. 34)*: now estimated some $350 million, paying bills of more than 50 Kennedys.

King

Short Hills, N.J., NYC, Calif., et al. Charles King (d. 1972) pioneer radio syndicator 1930s, formed TV syndication company King World Productions 1964. Sons Roger, Michael took over early 1970s. Hit bigtime 1980s with syndication rights to *Wheel of Fortune, Jeopardy!, Oprah Winfrey;* top 3 syndicated shows. Also produce tabloid journalism show *Inside Edition*; new *Candid Camera* this fall. Sixteen-hour workdays not uncommon for brothers. Roger, 47, chairman; Michael, 43, president and CEO; Diana, 42, vice president and treasurer; Richard, 50, director. Sister Karen quit 1986, eldest brother Robert sold out for $1.7 million before company went public 1984. With 35% stock, etc., worth at least $500 million. "We do our homework."

Kleberg

King Ranch, Tex. Richard King (1824-85), Rio Grande steamboat captain, bought Spanish land grants south Texas 1850s, started country's most famous ranch. Bulk (over 800,000 acres) to daughter and husband Robert Kleberg. Formed King Ranch Corp. Descendants, with Exxon, developed big oil finds. Family built up ranches Argentina, Venezuela, Spain, Morocco, Australia (7.6 million acres), Brazil. Nonfamily member Leroy Denman, chairman of King Ranch, sold all overseas except Brazil. Family clash led to buyout, departure of former managers Roger Shelton, Belton Kleberg Johnson mid-1970s. Stephen (Tio) Kleberg runs daily operations. Robert's descendants believed worth about $1 billion.

Kohler

Kohler, Wis., et al. John M. Kohler bought iron foundry 1873; sold enameled hog scalder as inexpensive bathtub to swelling immigrant market; expanded to other bathroom fixtures. Son Walter thought big: instituted 50-year plan (this one worked, unlike Mao's), brought in Frederick Law Olmsted's firm (designer NYC's Central Park) to design company town; the governor of Wisconsin 1929-31. Walter Jr. also governor 1951-57. Uncle Herb took over firm 1940s, and ran until his death in 1968; weathered bitter UAW strike 1954-62. Herb Jr., 52, former hippie, chairman 1972. "Hipness" didn't hurt: sales now estimated over $1.3 billion. However, the company carries much debt. Family fortune estimated over $500 million.

Lawrence

NYC area. Heirs of Sylvan Lawrence (né Cohn), whose great-grandparents began NYC real estate empire 1860s. Sylvan twice college dropout, sold bikes for father-in-law. Drugstore soda jerk 1946; big brother Seymour Cohn *(which see)* invited Sylvan into real estate. Together launched impressive Manhattan empire; at peak 12 million sq. ft. office space. Seymour: "Being brothers, we had a tremendous edge. We went to work together, we came home together. We always worked Saturdays. Sundays we'd talk real estate." Sylvan d. 1981 (cancer), many properties sold for nearly $800 million. Seymour: "I never looked at it as if we were two people. We were one." Sylvan's heirs' worth estimated at least $390 million.

Lilly

Indianapolis, et al. Descendants of Colonel Eli Lilly, Civil War veteran, opened Lilly's Laboratory 1876. Son Josiah took over 1901, introduced first commercial insulin 1920s. His two sons first to mass-produce Salk

Mary Hilliard

Larry Fleming

David (left) and Charles Koch, victors in the family feud

Fred Koch, their father, developed a refining process that started the family's vast private fortune. But he couldn't figure out how to keep his four boys from battling over everything from sports to business. Charles and David's solution: They bought out their two brothers in 1983 and, billionaires now, have long lived far apart. Charles is in Wichita at company headquarters, David in New York.

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[illegible] 1950s. Company marketed first drug based on gene-splicing, Humulin, 1982. Total 1990 revenues: $5.2 billion. But also legal problems 1970s, 1980s: Oraflex, DES, Darvon. Nonfamily management. Vast family philanthropies: Lilly Endowment, set up 1937, $2 billion trust for Indiana educational, religious development. Family vague on stockholdings: If diversified out of Lilly into, say, DJIA, might be worth only $1 billion. If held on to original Lilly shares, over $2 billion.

Lykes

Tampa, New Orleans et al. Descendants of Dr. Howell Tyson Lykes (d. 1907), who inherited 500 acres near Brooksville, Fla.; became rancher 1870s. With 7 sons, amassed fortune raising, shipping cattle to Cuba. Lykes brothers diversified 1940s: insurance, real estate, steelmaking, natural gas, banking, citrus, ocean shipping. Lost Cuban acreage in Castro takeover. Merged steel operations with LTV Corp. 1978; escaped mostly unscathed from LTV crash 1986. Family bought famed steamship line back from LTV 1983. Own some 350,000 acres Glades County, Fla.; 250,000 acres Texas ranchland. Great-grandson Thompson Lykes Rankin, 51, heads empire. Some 200 family members quietly share estimated $565 million fortune.

Mack

NYC et al. Descendants of Philip Mack, Russian immigrant who founded construction/demolition company at turn of century: "He got his startup capital by putting his money under the mattress." Son H. Bert, grandsons built Mack Co. into pioneer suburban commercial development firm; industrial sites N.J. Meadowlands 1960s, office parks 1970s. Now control over 11 million sq. ft. industrial space, 5 million sq. ft. office space N.Y., N.J., Pa., Fla., Ariz. Slowed down development 1987, ahead of real estate bust: "The time to buy an umbrella is when the sun is shining." Backed Paul Bilzerian Hammermill bid 1986, split $58 million profit; also Arkansas Best 1988. Estimated $300 million or more.

Marriott

Washington, D.C. Heirs of J. Willard Marriott Sr. (d. 1985), rancher's son born in Marriott, Utah; family among early pioneers. Worked way through college. Married 1927, moved to Washington, D.C., with wife started A&W root beer stand. Pioneered airline catering 1937. Opened first hotel 1957; start of worldwide conglomerate of hotels, restaurants, etc. Bought Howard Johnson Co. 1985. Wife, sons run company. Concentrating on lodging, contract services (airport, toll-road concessions); selling off restaurant, food service (Roy Rogers restaurants 1990, airplane catering 1989). Family's stock, other assets worth some $690 million. Bill Jr.: "I have to make sure we do things right. It's my name over the door."

McClatchy

Sacramento et al. Decendants of Irish immigrant James McClatchy, briefly reporter for N.Y. Tribune under Horace Greeley; went West 1849. Four businessmen founded the Sacramento Bee 1857, James editor same year; acquired one-third for $1,800 in 1866, family had full ownership by 1883. Sons C.K. and Valentine editor, publisher respectively; C.K. bought out brother; died 1936. C.K.'s son Carlos, daughter Eleanor ran papers until Eleanor's death 1980. Her nephew Charles took public 1988; died suddenly 1989. Charles' brother James chairman, publisher. Company now 11 dailies, 8 nondailies. Family stock recently worth over $500 million.

McGraw

NYC et al. Descendants of James H. McGraw Sr., schoolteacher who sold magazine subscriptions on side 1800s. Took piece of failing transportation magazine 1888 in lieu of unpaid commissions. Bought more transportation, electricity magazines. Teamed with John Hill, owner 2 similar publications, 1909, formed McGraw-Hill. Hill died 1917. By late 1920s 20 magazines, book business. John's grandson Harold W. McGraw Jr., retired chairman; noted for thwarting $1 billion American Express takeover attempt 1979. Harold's son, Harold (Terry) W. McGraw III executive vice president, heir apparent. Family split into many factions, takeover talk still around, but still controls about 20%, recently worth nearly $470 million.

Mead

Consolidated Papers. Wisconsin Rapids, Wis. George W. Mead (d. 1961), Illinois furniture salesman, sought to settle father-in-law's estate 1902; sought qualified paperman to run hydroelectric, paper conglomerate to no avail; stayed 59 years. Son Stanton ran company 1950-66, modernized; conservationist, philanthropist. Grandson George II joined company 1952, succeeded father as president 1966; navigated lean early 1970s until main customer, magazine industry, recovered. Company still has first coated paper account, also FORBES. Today again tough market, paper surplus: "We're selling very hard." Aggressive $800-million-plus capital spending featuring 2 paper machines. Nearly 80 family members share stock recently worth over $645 million.

Mellon

Pittsburgh area. Founding father Andrew Mellon arrived U.S. 1818. With brother bought farmland. Died 1856. Son Judge Thomas Mellon studied law, attended Western U. Invested in coal, real estate. Started T. Mellon & Sons, predecessor of today's Mellon Bank. Common Pleas Judge, quit 1869: ". . . I was making too great a pecuniary sacrifice." His sons Andrew, Richard B. turned father's holdings into one of three largest American fortunes pre-WWI (with Rockfeller, Vanderbilt). Andrew leader in creating financial institutions, venture capital (Alcoa, Koppers, Gulf Oil, etc.). U.S. Treasury Secretary 1921-32; reduced national debt from $24 billion to $16 billion. Exonerated after death 1937 of income tax fraud charges. R.B.'s son, Richard King Mellon, managed the family businesses for 30 years, centralized control of fortune in Pittsburgh. Revitalized Pittsburgh: $160-million-plus Mellon funds to Carnegie-Mellon, University of Pittsburgh.

Family fortune, prudently managed, should exceed $4.3 billion. *(See various Mellons, Scaife, May, Conover, Curriers.)*

Milstein

NYC and Scarsdale, N.Y. Morris, founder Circle Floor Co. 1919; floored NYC landmarks: Rockefeller Center, United Nations, etc. Sons Seymour, Paul helped out: Paul later headed Circle; Seymour ran Mastic Tile Corp. of America, both sold by late 1960s. Dove into real estate with 684-unit Dorchester Towers apartments 1964. Milstein Properties built up hotels, 10,000 apartments, offices, etc. Took over United Brands 1975; ran, sold for $40 million profit 1985. Bought ailing Emigrant Savings Bank 1986. Recent real estate woes: defaulted on $100 million mortgage for Normandie Court; restructured. Seymour says company financially strong, honoring nonrecourse debt. Net worth may still exceed $425 million.

Murphy

Murphy Oil Corp. El Dorado, Ark. Banker Charlie Sr., "Mr. Charlie" (d. 1954), built 100,000-acre timber farming empire; discovered oil Louisiana 1920s. Son Charlie Jr. invested $5,000 gift from grandfather in own oil company. Took over Murphy Oil at 21 after father suffered stroke; had to forgo college but taught self classics, languages. Built integrated company with international reserves, refineries through mergers, exploration, reinvestment. Now 70, still chairman. Three sons, 3 other relatives in business; 1 daughter not. Secret of family company: "See that your sisters marry outstanding men." Family owns 26% Murphy stock, Arkansas-Louisiana timberland. Estimated worth: $405 million.

Nordstrom

Nordstrom, Inc. Seattle. Descendants of John W. Nordstrom (d. 1963), Swedish immigrant who went West in 1888 as logger, miner. Made $13,000 in 1896 Klondike gold rush. Opened a small shoe store in Seattle 1901. By 1963 John's sons had built company into largest independent U.S. shoe chain (27 stores). Moved into fashion retailing 1960s, went public 1971; now nationwide. Grandsons John N. and James F. both cochairmen; cousin Bruce A. also cochairman. "We outservice, not outsmart." Recently named 4 nonfamily members as copresidents, promoted 2 fourth-generation Nordstroms. Family shares worth around $1.5 billion.

Norris

Lennox International. Descendants of D.W. Norris, owner Marshalltown (Iowa) Times-Republican, who helped father-in-law get job 1904 by paying $40,000 to buy coal-furnace operations from machinist-inventor David Lennox. Pioneered sheet metal furnaces; business boomed when country went for central heating. Son John Norris developed oil and gas furnaces 1930s. Now estimated sales are more than $1 billion annually; company subsidiaries include Heatcraft Inc. and Armstrong Air Conditioning. Founder's grandson John Jr. took charge 1980. Company stock passes steadily to around 175 family members as gifts; Norris claims, "You start with a lucky gene pool." The family is worth an estimated $430 million.

Ronald Perelman: paying down the bankers

He succeeded as well as anybody in dealmaking his way to a major empire. Now come the asset sales to pay down crushing junk debt. A big question: Can Perelman make what's left of Revlon sparkle in the frenetic world of trendy packaging, marketing and image?

O'Connor

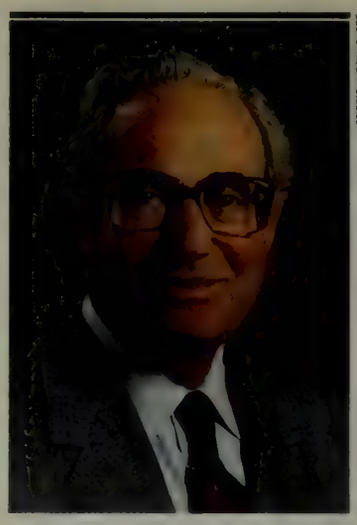
Victoria, Tex. Descendants of Thomas O'Connor (d. 1887), Irish immigrant who arrived Texas early 1830s, fought in Lone Star War of Independence, 1836. Built up 400,000-acre ranching empire southern Texas. Two sons expanded, added 200,000 acres out of state, developed Braford cattle (better adapted to Gulf Coast climate). In mid-1930s discovered "Tom O'Connor" oilfield on land, one of largest, most productive in Texas. Family also owns some 2 million shares Victoria Bancshares—a place to keep the money. Steeped in ranching tradition, now adding preservation. Senior family member: "We're just caretakers for the next generation." About 30 O'Connors share fortune believed worth over $450 million.

Pew

Philadephia origin. Joseph Newton Pew Sr. founded Sun Co. (a.k.a. Sunoco) 1886, developed technique to capture and pipe previously wasted natural gas; bought into legendary Spindletop 1901; died at desk 1912. Son J. Howard (d. 1971) president 1912-47, returned as chairman 1963-70. Last Pew to run firm. R. Anderson Pew, 54, great-grandson of founder, heads Sun subsidiary. Robert C. Pew married Steelcase heiress *(see Hunting, Idema, Wege)*; runs that company. Staunch Republicans, Presbyterians, dispersed nationwide. Pew Charitable Trusts among largest U.S.: education, health services, etc.; assets managed through Glenmede Trust. Hundreds of family members own 4% Oryx Energy, 4% Sun Co., etc. estimated $515 million.

Phipps

Pittsburgh origin. Henry Phipps, son of Philadelphia cobbler, became accountant to steel titan Andrew Carnegie, then business partner; got $50 million when Carnegie sold steel mills to J.P. Morgan 1901. Created Bessemer Group 1907 (sentimental: name of moneymaking steel process) to oversee 3 banks, including Bessemer Trust designed for five Phipps children. BG later garnered other clients, grew exponentially. Now manages over $8 billion: $1.8 billion belongs to Phippses. In fifth generation, over 100 heirs including Guests, Mannings, Martins, mostly N.Y., Fla. Litigation galore over Group's tight control of family fortune. Other real estate, shipping, oil, gas interests bring family wealth to some $2.5 billion.



Gabriel Moulin Studios

Gabriel Moulin Studios

Walter Jr. (left) and Robert Haas **Walter's Oakland A's faltered, but the family's Levi Strauss Dockers hit a homer in a new growth market: aging, thickening boys.**

Pigott

Seattle. Descendants of William Pigott Sr. Made railway cars and trailers for Northwest logging industry; 1905: founded Pacific Car & Foundry. Built tanks, tugs WWII. Son Paul later ventured into heavy-duty trucks. Now, as Paccar, produces "Rolls-Royces" of trucking industry, Peterbilt and Kenworth class-8 trucks. Revenues last year $2.6 billion, down 21% in recession. This year, down nearly 24% more first half. Awaiting turn in economy. Family maintains estimated 40%. Added poison pill against possible black knight, Harold Simmons *(which see)*. Grandson Charles, 61, Paccar CEO, chairman. James, 54, left firm over 10 years ago. More than 30 heirs share Paccar recently worth over $740 million.

Pitcairn

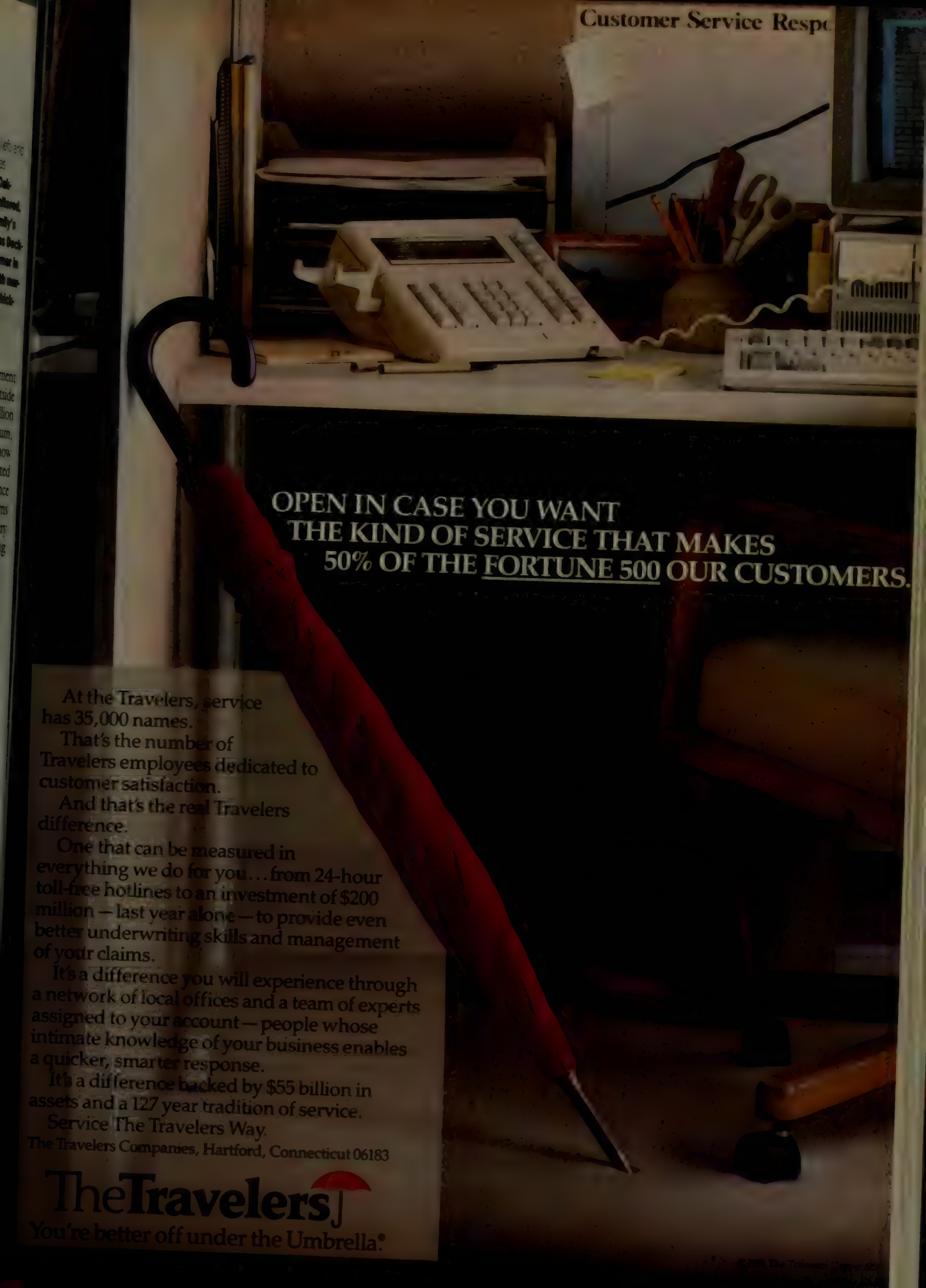
Bryn Athyn, Pa. et al. Progenitor John Pitcairn from Scotland; launched glassmaking plant on Allegheny River 1883; built PPG; d. 1916. Raymond took over business; Theodore became missionary; Harold helped create autogiro. Sons pooled inheritance in family trust. Discontented later generations sold PPG shares 1985. Started Pitcairn Financial Management Group. Began managing outside money 1989; now over $1.3 billion assets (required outsiders' minimum, $4 million). PPG up, Pitcairn now repurchasing. Family assets estimated at least $950 million, some evidence suggests $1.2 billion. "The Pitcairns survived because they have a very strong family culture, a very strong family ethic."

Pulitzer

St. Louis et al. Descendants of Joseph Pulitzer (1847-1911), Hungarian immigrant in St. Louis after Civil War, bought bankrupt Dispatch 1878 for $2,500; stressed muckraking, yellow journalism. Eventually merged with Post; bought out partner. Built chain. Started first grad school for journalism, Columbia, 1903; also Pulitzer awards. Now Pulitzer Publishing owns 3 daily, 20 weekly papers. In broadcasting since 1922; now 7 network-affiliated TV stations, 2 radio, 1 satellite network. Grandsons Joseph Jr., 77, Michael, 61, David Moore, 67, repulsed efforts by outsider Al Taubman *(which see)* to buy shares from discontented family members, bought out dissidents for $187 million 1986. Family fortune exceeds $570 million.

Reed

Seattle et al. Family descended from Sol G. Simpson who cofounded Simpson Timber 1890. "Sleepy lumber company" until 1950s when diversified into papermaking. Reputation for shrewdly buying timber prop-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erties at fire-sale prices, replanting for long term. Today over 750,000 acres West Coast timberland, including 200,000 acres redwood. Value rising with exports to Asia, environmental pressure to limit cutting public lands. Great-grandson William Reed 52, chairman, chief executive since 1971. In 1987, after 3-year legal squabble, last few nonfamily shares bought out; former owners kicking selves over price. Fewer than 50 descendants now own company believed worth $1 billion or more.

Richardson

Greensboro, N.C., Connecticut, et al. Descendants of teacher turned pharmacist Lunsford Richardson, bought drugstore 1890s for $450. Began to develop home remedies under Vicks name he saw in magazine ad for Vick's Seeds. Founded Vicks Family Remedies, predecessor of Richardson-Merrell, with life savings of $8,000, 1905. Son renamed key product Vicks VapoRub; sales surged during Spanish influenza epidemic 1918-19. Wrote 1919: "I had dreamed dreams of a worldwide business." Richardson-Merrell (prescription drugs) sold to Dow Chemical 1981 for $80 million stock. Richardson-Vicks (Clearasil, Nyquil, VapoRub) merged with white knight Procter & Gamble 1985. Close ties among family, now thought worth over $750 million.

Rockefeller (John D.)

NYC, et al. Descendants of John D. Rockefeller, world's first billionaire, founder Standard Oil. Frugal accounting clerk who invested in merchant grain business 1858; put $4,000 into oil refining 1863. Did better than okay: 7 years later Standard Oil of Ohio; went on to form legendary monopoly. Furor led to Standard Oil trust breakup 1911. To marry Abby Aldrich, only son John Jr. gave her father long, earnest recitation of his financial prospects (Mr. Aldrich was won over). Between them, two John D.'s gave over $1 billion to charity—when a billion was still a billion. Jr. had 6 children: daughter Abby, sons J.D. 3rd, Nelson, Winthrop (all deceased) and sur-

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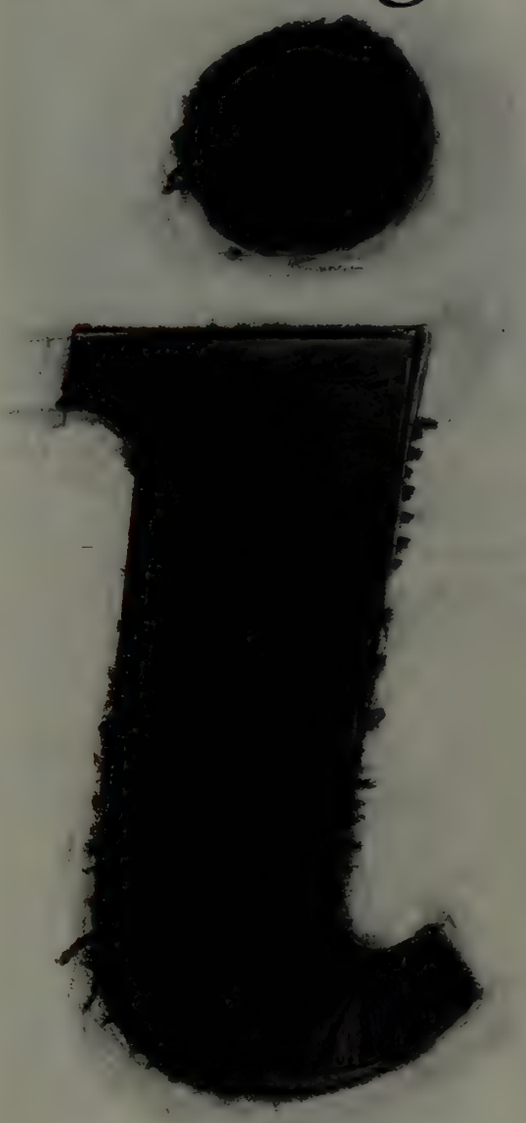

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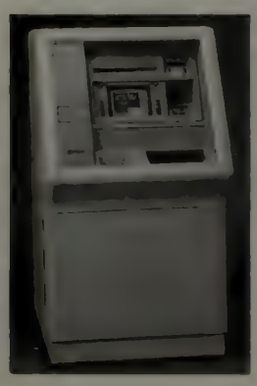

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surviving sons Laurance, David *(which see)*. John D. IV (Jay), one of 4 children of John D. 3rd (d. 1978), was W. Va. governor 1977-84, now U.S. senator (spent over $12 million on 1984 race), has considered presidential bid 1992. Nelson (Rocky) d. 1979, left 6 children; 4-term liberal GOP New York governor, 3-time contender for presidency, Ford's vice president. Combined family fortune estimated $5 billion or more.

Rockefeller (William)

Greenwich, Conn.; NYC et al. Some 75 descendants of William Rockefeller (1841-1922), easygoing brother of John D. Ran Standard Oil of N.Y. (now Mobil) until trust-busted 1911. Had up to 12.5% of trust, plus extensive stock portfolio; director of about 50 public companies. Two sons married daughters of James Stillman, head of National City Bank of N.Y. (now Citibank). William's grandson married niece of Andrew Carnegie. Two daughters married into McAlpin, Dodge fortunes. Family holds blue-chip stocks, land in Greenwich. Sold Cranston Print Works (textile printing) to employees 1987. Some assets managed by Andrew Rockefeller, 61, William's great-grandson. Net worth estimated $300 million.

Rose

NYC. Jerusalem-born David (d. 1986) cofounded Rose Associates with brother Samuel (d. early 1960s) in Bronx 1920s, then Manhattan. One of New York's oldest, biggest apartment builders, managers; now run by Samuel's sons: Frederick builds, Daniel plans, Elihu manages (all Yalies); also 2 of their children in the business. Lesson from father, uncle: "The best fertilizer is the farmer's shadow on every piece of property." Apartments, offices, hotels, shopping centers on East Coast. "They're sitting in a fortunate position, without debt." Converted some 3,000 Manhattan apartments to co-ops, condos. Avoid public eye. Frederick gave $15 million for Lincoln Center arts complex. "The world needs a Lincoln Center more than another shopping mall." Believed over $400 million.

Rosenwald

NYC et al. Inheritance. Julius Rosenwald (d. 1932) moved to NYC from hometown Springfield, Ill.; opened small clothing factory. Invested $35,000 in Sears, Roebuck & Co., bought out Alvah Roebuck 1895, Richard Sears 1913. Pioneered mail order; became world's largest retailer (now supplanted by Wal-Mart). Donated $50 million to educational, other causes. Five children sold most of Sears stake, diversified into real estate, cable TV, magazines, etc. Son Lessing (d. 1979) former Sears chairman, donated art to Library of Congress. Daughter Edith Stern (d. 1980) civil rights activist. Son William, 88, runs investment firm, American Securities Corp.; chairman United Jewish Appeal. Over 100 heirs share fortune believed at least $450 million.

Sammons

Dallas. Heirs of Charles A. Sammons (d. 1988), founder Sammons Enterprises. Built mixed bag of businesses: life insurance, cable TV, etc. Born Oklahoma 1898, orphaned early, raised by aunt; moved to Plano, Tex. 1918 to trade hay and grain: "I couldn't find a job and I didn't know a business." Invested profits in bank stock; bank went bust. Entrepreneur then started insurance business; Reserve Life Insurance Co. Dallas 1938. Later tried cable; now over 900,000 subscribers. Arranged estate to avoid dismembering company: 60% in foundations, 10% in ESOP; 30% in trust for descendants—only daughter, her nearly 20 children and grandchildren. Very low profile family estimated at least $500 million.

Sandler

S&Ls. Husband-wife team founded Golden West Financial Corp., based Oakland, Calif., 1962 with $4 million investment: Herbert, New York lawyer; Marion, Wall Street analyst. Shared simple dream: slice of residential mortgage market. During fast-buck 1980s, "Wall Street crucified us." No longer. Golden West doing just fine. Herb, 59, is the big-picture partner; Marion, 60, thrives on financial analysis. Sticking mostly with adjustable-rate mortgages; tight control, no frills, no corporate jet. Marion's brother, Bernard Osher, built auction house Butterfield & Butterfield, now considered third behind Sotheby's and Christie's. The three own 14% Golden West recently worth $360 million.

Scripps (E.W.)

Cincinnati origin. Descendants of populist Edward Wyllis Scripps, who at 24 launched Cleveland Press 1878. "Damned old crank," founded UPI, built nation's once-largest newspaper chain, Scripps Howard. Many properties since sold or folded. Family feuded: bitter split 1900s from half-brother James who formed competing firm; E.W.'s grandson James G. left to found separate Scripps League; other grandson John P. departed 1928 to establish own chain (remerged with others 1986). Original E.W. Scripps Co. went public 1988. United Media syndicate ("Peanuts," "Garfield," etc.); 19 dailies; 80% Scripps Howard Broadcasting (9 TV, 5 radio, cable). E.W.'s 32 descendants' stock, other assets worth some $1.4 billion.

Scripps (J.E.)

Detroit area et al. James Edmund Scripps (1835-1906), English immigrant, came to Illinois in 1844. Created "people's press": short, simple stories for hoi polloi, watershed break from contemporary elitist papers. Began Detroit News 1873; sold farm to pay vast debt. Big success; started chain. Messy rift with half-brother *(see above)* early 1900s. Formed Evening News Association via mergers. Separate chain founded by George Booth, Scripps executive who married into family. Heirs ran companies separately, profitably. Booth Newspapers sold 1976; ENA sold to Gannett 1985. This year, 2 sides of Scripps family had reunion—last one 100 years ago. Over 100 descendants share estimated $900-million-plus.

Searle

Chicago. Great-grandfather Gideon Searle bought Indiana drugstore after Civil War, built early drugstore chain. As G.D. Searle, made pharmaceuticals from 1888. Gideon's grandson

John ran huge moneymaker 1936-66: Dramamine, first oral contraceptive, etc. Under his son Daniel (CEO 1966-77) company stalled; brought in Donald Rumsfeld, former Defense Secretary, who saved company; Food & Drug Administration approval aspartame (marketed as Nutrasweet). Sold out to Monsanto 1985. Siblings Daniel, 65 (recently sold art collection for $34 million); William, 63; Suzanne, 60, oversee investments. Recently broke up venture capital firm, Earl Kinship Capital Corp. Family fortune still believed worth at least $800 million.

Segerstrom

Orange Co., Calif. Charles John Segerstrom arrived U.S. from Sweden 1882 with wife, 11 kids. Tenant farmers on 40 Orange Co. acres; bought more land with 4 youngest sons; d. 1928. By 1950s C.J. Segerstrom nation's leading grower large lima beans. Developed some real estate: industrial space, shopping centers, offices. Firm now headed by grandson Henry, 68; mother Nellie Ruth, 93; cousin Harold Jr., 63. "They never made a decision and left the room unless [they all] supported it." Built nation's largest mall, South Coast Plaza, Costa Mesa, Calif. 1967: 2.7 million square feet, annual sales over $600 million. Three partners in very private company with equity estimated over $375 million.

Smith

Chicago. Banking family with significant stake in Northern Trust backed two Swedish toolmakers who founded Illinois Tool Works 1912. Smiths eventually assumed control of tool company, later expanded into fasteners. Today also makes packaging systems, medical and computer supplies, engineering components. Developed plastic 6-pack carrier 1960s. Recently acquired Eagle Industries division, DeVilbiss, a manufacturer of industrial finishings and coatings. ITW's 1990 sales topped $2.5 billion. Family still active: Edward Byron Smith, 82, on board; Harold Jr., 57, chairs executive committee. Smiths' 28% ITW, 18.5% Northern Trust, recently worth at least $1.2 billion.

Gerald Davis

William Ziff: focusing on a new empire

He has run the family magazine publishing business, now called Ziff Communications, since he was 24. In 1985 he sold most of the old titles, but he kept and added to the computer magazines—including the biggest, PC Magazine (circ. 800,000). In less than a decade the company has risen to number one in the U.S. and number two worldwide in computer publishing revenues, and made its owner a billionaire.

Smith (Charles E.)

Washington, D.C. Patriarch Charles, 90, Russian immigrant, began building in Brooklyn; ruined in Depression. Moved to D.C. Lost shirt again, considered job bar & grill; wife talked him out of it. Built apartments. Son Robert joined father 1950. Assembled land: railroad yard in Arlington now vast Crystal City development. Now own 16.5 million sq. ft. commercial space; 22,000 residential units D.C. area. Charles retired to philanthropy (Jewish charities, Geo. Washington U.). Forgave $120,000 mortgage, gave $20,000 cash to retired Justice William Brennan Jr. Business run by son Robert, 63, son-in-law Robert Kogod, 50s. Three share one of D.C.'s biggest real estate empires, estimated $800 million.

Smith (Dee Glen)

Smith's Food & Drug Centers. At age 7, Dee Glen Smith (d. 1984) began working in family's mom-and-pop grocery Brigham City, Utah, 1933. Went into family business 1945 for good. By 1968 eight stores; during 1970s began acquiring, expanding into surrounding states. Developed food-fair concept, gaining exposure and goodwill at celebrity-filled annual events. Offered combination of low-priced goods, not all foods, convenient locations. Company went public 1989, now runs over 100 supermarkets and supermarket/drugstores in the Southwest and Mountain states. Dee's sons run company: Jeffrey, chairman since 1988; Richard, now president; Fred, director. Family's stock, proceeds from stock sales, recently worth over $390 million.

Stroh

Detroit. German brewer Bernhard Stroh arrived Detroit 1850 with $150; delivered beer door-to-door in wheelbarrow. Family company survived Prohibition selling ice cream (still does in Michigan, Ohio, Illinois). Great-grandson Peter, now CEO, led acquisition of F&M Schaefer 1981 for $70 million, Schlitz 1982 for $500 million. Competition tough, beer revenues down (low-priced brands include Old Milwaukee, Schlitz), sold interest in Spain's largest brewery 1990 for reported $335 million, recently sold facility in Texas. Peter very active in anti-alcohol-abuse campaign. Also real estate:

developing large facility downtown Detroit. Over 30 family shareholders hold estimated $500 million interest.

Stuart

LA; NYC; Bellevue, Idaho et al. Grandfather Elbridge Amos Stuart founded Carnation Co. 1889 Kent, Wash. Paid $25,000 for evaporated milk process; supplied prospectors en route to Yukon. Down the road: Coffeemate, Instant Breakfast, Friskies, etc. Sold to Nestlé 1985. Grandson Dwight, 68, divorced 4 times; 5 children. Company president 1972-83; decided to sell family's 33% shares to Nestlé while in alcohol detox treatment. Brother Elbridge, 74, married to noted paleontologist Marion Butler Stuart; 3 children. Carnation VP to 1961; lives on isolated Idaho ranch. Two cousins live very privately in California. Family believed worth some $800 million.

Stryker

Medical supplies. Kalamazoo, Mich. Grandchildren of Stryker Corp. founder Homer, an orthopedic surgeon. Company grew by pioneering specialty stretchers, hospital beds and medical equipment. Products now also include orthopedic implants, drills, saws, etc., often used by orthopedic surgeons. Sales grew to $281 million 1990, up 24%. International sales 29%: 80 countries, most volume in Europe and Far East. Three siblings Ronda, Patricia and Jon share family trust. Patricia and Jon not active in company. Ronda, 36, a director; also trustee, Kalamazoo College. Rising stock split 5 times 1980s, first 1990s split June. Family trust holds 24%, recently at 50 times earnings; priced at $370 million.

Sulzberger

The New York Times Co. NYC. Proprietor of Tennessee newspaper, Adolph S. Ochs, bought ailing New York Times 1896 for $75,000. Built Times to one of world's most respected newspapers. Only child Iphigene married Arthur Hayes Sulzberger 1917, son of cotton merchant. Adolph died 1935, Arthur took over. Followed by Iphigene's son-in-law, 1961, who died 1963; then Iphigene's son Arthur Ochs (Punch) Sulzberger. Revamped staff, newspaper, expanded coverage. Diversified: other papers, magazines, electronic media. His son, Arthur Jr., deputy publisher. Iphigene died Feb. 1990; Punch now presides over family trust, stock worth about $500 million.

Swig

San Francisco. Heirs of Ben Swig, Bostonian partner with Jack Weiler *(see family)*. Jack stayed NYC, Ben to SF 1946. Extremely philanthropic: "Give it away while you're alive, because there are no pockets in shrouds." Families built, bought commercial, hotel, residential properties. Swig, Weiler & Arnow now controls over 5 million sq. ft., mostly office space NYC, SF. Swigs own posh SF Fairmont Hotel, 4 sister Fairmonts nationwide, bought out "non-growth-oriented" Weilers' 50% 1982. D.C. Fairmont in works. Ben's sons: Richard, 66, chairman; Mel, 74, does the real estate. Brother-in-law Richard Dinner, 70, retired. "We're being very cautious in this market." Estimated worth $400 million.

Taylor

Publishing. Boston origin. Ailing Boston Globe resuscitated 1872 by General Charles H. Taylor with funding from Eben Jordan *(see family)*. Exercised option from Jordans to buy half. Globe managed by three successive Taylor generations, now largest New England paper. William O., 59, great-grandson, chairman umbrella Affiliated Publications. Fifth generation well up in company. Prescient 1981 investment in cellular phone startup, McCaw Cellular, boosted stock manifold; McCaw spun off to shareholders 1989; family members sold most of their McCaw stock. With nearly 19% Affiliated, McCaw proceeds, 100-member clan has plenty to write about: estimated at least $455 million.

Temple

Diboll, Tex. origin. Descendants of Thomas Louis Latane Temple Sr., owner 7,000 East Texas acres, founder Southern Pine Lumber Co. 1893. Son Arthur inherited 200,000 acres, company saddled with debt at father's death 1934; survived. Grandson Arthur Jr., now 71, drove company on to half-million-acre forest, 1973 earnings $9.6 million; developed innovative selective harvesting methods. Merged with Time Inc. 1973; Arthur Jr. Time vice chairman 1978-83. Temple-Inland spun off 1984. Retired this year as chairman; now chairman emeritus. Opposed Warner Communications deal, quit Time board 1989. Temple-Inland expanding mortgage banking, S&Ls. Son Arthur III (Buddy), 49, now runs family real estate investments. Fortune estimated over $710 million.

Turner

Grills, sports apparel, Coca-Cola stock. Columbus, Ga. W.C. Bradley founded company of same name 1885, currently in real estate, timberland, Sports Fantasy apparel stores and manufacturing; also barbecue grills. Now controlled by grandchildren William B. Turner, 68; Sarah Turner Butler, Elizabeth Turner Corn. Next generation: W.B. Jr., 39, is president; Stephen Turner Butler, 40, chairman, CEO. Also family investments: 10% Synovus Financial, etc.; 0.6% Coca-Cola stock since early in century. Bradley-Turner Foundation supports religious, educational charities. "Specializing in their own backyard," explains employee, and worth over $400 million doing so.

Upjohn

Kalamazoo, Mich. Descendants of William Erastus Upjohn who got pill-making patent, began Upjohn Pill & Granule Co. 1885. Brothers joined; company grew fast; changed name to the Upjohn Co.; William later bought out brothers. In 1929 appointed nephew Lawrence president and stepson Donald Gilmore vice president 1930. William died 1932. Family appointed first nonfamily chairman 1987. William Parfet, great grandson of William Erastus, now president. Company states it will stay independent, despite takeover rumors. Family's 15% recently worth over $1.2 billion.

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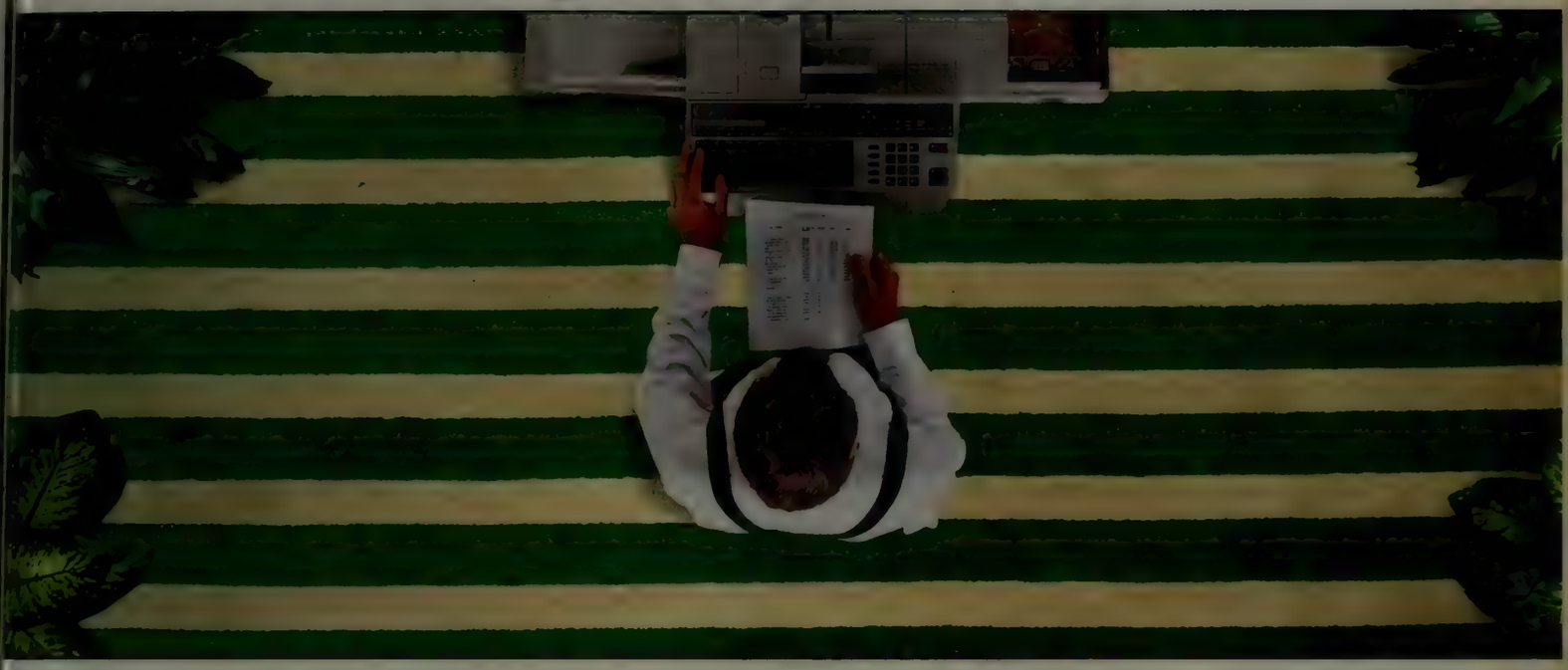

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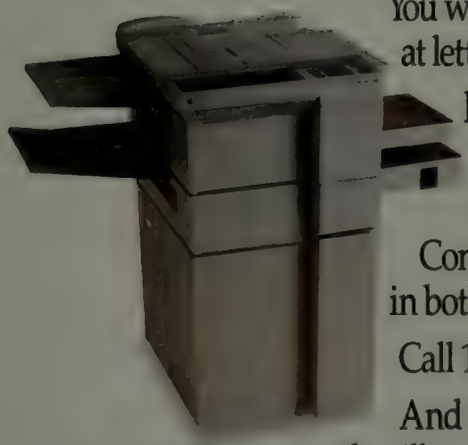

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Ward

Real estate. Honolulu. Descendants of Curtis Perry Ward—Kentuckian who sailed to Hawaii in 1853—and part-Hawaiian wife Victoria Robinson. Hobnobbed with Hawaiian royalty. Ward ran very profitable horse and carriage company, but also had eye for real estate. He bought land—to build Southern-style homes—later turned into an estate called Victoria Ward Ltd. Ward daughters married Hustaces and Wodehouses, heirs control the estate—now 65 acres of prime urban Honolulu commercial, industrial properties. Estate incorporated 1930, functions as leasing/management company. Edward C. Hustace, 72, manager and director since 1946 of estate estimated worth $500 million.

Watson

Armonk, N.Y. origin. Family descended from Thomas John Watson, "World's Greatest Salesman," born 1874. Started $6-a-week bookkeeper job; president Computer-Tabulating-Recording Co. 1914. Bought shares. Renamed International Business Machines 1924. Created, dominated markets for punch card accounting equipment; saw commercial potential early Univac computer. Died 1956, age 82. Thomas Jr. only one of 4 children still living. Ran IBM to 1971, built Computer Age: mainframes to silicon chips. Today, Thomas Jr., 77, sails, flies stunt planes at Maine estate. No Watson at company. IBM losing market share, stock down. Family believed to still own shares worth some $500 million. "Think."

Weiler

NYC. Family of Jack Weiler, 87, son of Ukrainian Talmudic scholar, operated in NYC while partner Ben Swig *(see family)* handled Boston, then SF. Top lease broker for big retail chains 1940s, 1950s. Pair invested in properties. Now Swig, Weiler & Arnow owns some 5 million sq. ft. office space. Sold half of Fairmont Hotel chain to Swigs 1982. Still partners in all else. Jack devoted to Jewish charities: "Philanthropy comes first, ahead of my business." Built homes for Israeli immigrants after WWII. Son Alan, 57, company attorney, actively involved; son-in-law Robert Arnow, 67, also active. Conservative Weilers share fortune estimated at $300 million. "Take us off the list, you won't hurt our feelings."

Weyerhaeuser

St. Paul, Tacoma, et al. German immigrant Frederick Weyerhaeuser (1834-1914) bought employer sawmill out of bankruptcy 1857 with brother-in-law. Expanded; logged swath in north central, Pacific states. Acquired 900,000 acres at $6/acre from railroad pioneer James Hill 1900; formed Weyerhaeuser Co. Business empire included some 200 related companies (biggest: Potlatch) with interlocking directorates. Infuriated muckrakers, Teddy Roosevelt. Today environmentalists call company "best of s.o.b.s." Great-grandson George, 65, retired as CEO in July; first time in company's 91 years not run by family member. Some 250 family members share 10% of company, other assets; estimated worth some $920 million.

Whittier

Southern California. Descendants of Mericos H. (Max) Whittier, cofounder Belridge Oil 1911 with 4 partners: bought option on property in Bakersfield when he found oil seeping from ground; president until death 1925. Son Leland president 1965-79. Two families sold out to Texaco, Mobil 1930s; Whittier, Buck, Green families sold to Shell for $3.6 billion 1979. Max's 4 children got $475 million after taxes (last surviving child, N. Paul, died in August). Family has oil company, M.H. Whittier Corp. Charitable family: Max's daughter gave eye institute to Scripps Foundation, Asia Complex to San Diego Zoo. Fortune should be $650 million, if kept up with inflation.

Wirtz

Chicago. Heirs of Arthur Wirtz, son of Chicago policeman, built fortune in Chicago real estate beginning 1922; by 1927 owned or managed 80 lakefront buildings. With grain speculator James Norris bought more at Depression prices. Brought skater Sonja Henie to U.S. 1936, acted as financial adviser, producer. Acquired string of sports arenas, including Madison Square Garden; split up by antitrust suit 1957. Died 1983. Eldest son William, 62, manages family's liquor distributorship (among largest Minnesota, Illinois), real estate, banking, hotel interests. Also Chicago (hockey) Blackhawks, share of (basketball) Bulls. New Chicago sports complex ran afoul local community. Believed worth $550 million.

Wolfe

Columbus, Ohio, et al. Descendants of brothers Robert and Harry, who amassed fortune from Wear-U-Well shoes. Family entered media: bought Columbus Dispatch 1905; much later 2 TV, 2 radio, Ohio magazine. Also banking, real estate. Grandson Edgar Jr. died in plane crash 1975. Edgar III died of AIDS 1985; family feud over estate. Republican family, considered Ohio political institution. Avoid public eye. "The unwritten family policy has been not to get too far out front on things." Grandson John W., 63; his cousin John F. (publisher, CEO of Dispatch), direct 14-member family's affairs. Ohio magazine faltering; rest of media alive and well. Dispatch, broadcast outfits, stock make up fortune estimated over $500 million.

Yates

Artesia, N.M. First commercial wells on New Mexico side of Permian Basin drilled by oilman Martin Yates Jr. 1921. Family legend: dry well after dry well until his wife picked site; then hit gusher. Built rapidly 1920s: constructed pipeline, refinery. Sold refinery during Depression. Martin's sons—Harvey, Saint Clair Peyton (S.P.), Martin III and John—joined business, further built up Yates Petroleum. Harvey left 1963 after disastrous foray into mining forced sellout to his brothers; bounced back, rebuilt oil fortune as Harvey Yates Co. (Heyco). Third generation following second, active in family business or on own (Harvey Jr. runs Cibola Energy Co.). Total family net worth estimated $440 million.

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Died

Blaustein, Morton. Baltimore. Trained geologist, chairman of his family's American Trading & Production Corp. (extensive interests oil and gas, real estate, tankers, manufacturing, investments). He choked to death while eating, age 64. Fortune was believed to be worth some $700 million.

Greenewalt, Margaretta du Pont. Greenville, Del. 89. Survived by husband, president Du Pont 1948-62. Portion of inherited wealth left to her siblings, all of them children of Irénée du Pont Sr. *(see du Pont family).*

Heinz, Henry John III. Fox Chapel, Pa. Republican senator since 1976, heir to H.J. Heinz food fortune. Died age 52 when a plane he was flying in collided with a helicopter. One of the country's richest politicians: personal holdings worth over $500 million 1990.

Paley, William S. NYC, Southampton. Built group of small radio stations into CBS. Company problems aboil, allied with Laurence Tisch *(which see)* 1986, returned to company as chairman 1987. Remained active despite bad health until death October 1990 at age 89; fortune estimated $460 million.

Weinberg, Harry. Honolulu. Was one of largest individual landowners on island. Died November of bone cancer, age 82. All but $3 million of estimated $950 million estate was left to Harry and Jeanette Weinberg Foundation.

Woodner, Ian. NYC. Architect, developer, art collector died Nov. 1 of heart attack, age 87. Helped design Central Park Zoo, 1939 World's Fair. Important collector of Old Master drawings, other artworks. Estimated $310 million 1990.

Declined

Brown, Harold. Boston. 66. Move into office buildings at peak 1980s prices made him vulnerable to Northeast's real estate debacle. After Chapter 11 filing in March, Brown restructured debt. Comeback possible someday. Maybe.

Clark, Alfred James. Easton, Md. 63. Clark Construction Group not constructive enough, Washington, D.C. real estate power's net worth may no longer be as high as $275 million in soft real estate market.

Cohen, Arthur G. Kings Point, N.Y. 61. Estimated over $300 million 1990, but combination of real estate recession and real estate debt levels believed to put him well below minimum this year.

Cox, Edwin Lochridge Sr. Dallas. 70. With oil, gas production, values down, believed too far below 1990's $300 million estimate this year.

Crain, Gertrude Ramsay. Chicago. 80. Estimated $275 million in 1990. Continuing publishing recession further depressed magazine values, even at Crain Communications.

Daniels, Bill. Denver. 71. A casualty of declining cable TV valuations. Daniels' cable systems, networks (Prime Ticket, etc.) now believed well below the $325 million estimated last year.

Dreiseszun, Sherman W.
Morgan, Frank Sherman
Uncle, nephew. Kansas City, Mo. 67 and 64. Between real estate assets and banks, their cupboards are looking a little barer this year.

Duchossois, Richard Louis. 70. Barrington Hills, Ill. Last year estimated $350 million. But railcar manufacturing slump, uninspired management, emphasis on unprofitable racecourse explain fall from list.

Flatley, Thomas John. 60. Milton, Mass. Irish immigrant invested primarily in New England real estate, last

Results for the first half of 1991, from CS Holding – the worldwide financial service Group based in Switzerland.

CS Holding's consolidated results for the first half of 1991 show a positive trend in earnings, which were largely unaffected by the generally lethargic pace of economic activity. All Group companies contributed to this success:

Credit Suisse

Leu Holding Ltd.

CS First Boston, Inc.

Electrowatt Ltd.

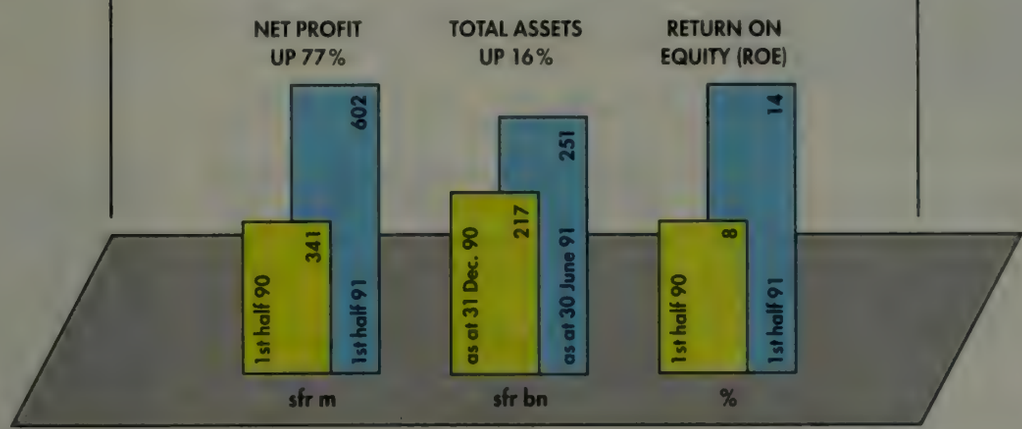
Fides Holding

CS Life

Group companies active in banking report a marked improvement in profits, compared not only with last year but also with the impressive results of 1989.

CS First Boston has recovered from the difficulties it encountered in 1990 and records a much higher-than-expected net profit for the first half of this year.

The improved conditions on the US capital market enabled bridge loans to be scaled down considerably. Thus, since the end of 1990, CS Holding has been able to reduce its total exposure from $ 470 millions to $ 135 millions.



The Credit Suisse Group, the Leu Group, the CS First Boston Group and all companies in which CS Holding has either a direct or indirect interest in excess of 50% are included on a fully consolidated basis while the Fides Group, CS Life and the Electrowatt Group are included on the basis of the equity method.

The Group's letter to its shareholders contains further information on our holding structure and other relevant details. To obtain your copy, call us on 41-1 212 02 90 or fax us your business card on 41-1 333 28 59.

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year estimated at $550 million; revised debt estimate, weak market change picture.

Galbreath, Daniel Mauck. Columbus, Ohio. 63. Debt, increasing vacancy rates created cash flow problems, particularly on property developed, acquired in pricey 1980s. Also suits on debt defaults, payout on recent divorce settlement. Net worth now well below minimum.

Galesi, Francesco. 60. NYC. Another casualty of real estate recession; cheap properties, net of estimated leverage, now believed worth about half last year's $435 million.

Gould, Kingdon Jr. Laurel, Md. 67. Great-grandson 19th-century capitalist Jay Gould. Current tender real estate market hurts net worth estimated $300 million last year.

Kalikow, Peter Stephen. NYC. 48. Estimated over $500 million 1990. Plunging real estate values forced Chapter 11 filing, which still claimed $490 million net worth. Owes more than $1 billion. Banks want control of all properties, including New York Post. Off our list.

Lerner, Theodore Nathan. Chevy Chase, Md.; Palm Springs. 65. Even malls believed not-so-hot values this year; sitting on development plans for land around Dulles Airport.

Mugar, David. Boston. 52. Owns CBS affiliate in Boston, WNEV-TV, as well as radio interests. With media properties down this year, believed to be worth well below $275 million.

Paulson, Allen Eugene. Savannah, Ga. 69. Repurchased Gulfstream Aerospace Corp. 1990 with Forstmann Little for $825 million; heavy debt forces estimate down from 1990's $325 million.

Paulucci, Luigino Francesco. Sanford, Fla. 73. Made a bundle long ago with Chun King and Jeno's pizza, but his Florida real estate is faltering today. Orlando's exclusive Heathrow development still unfinished after nearly 9 years. Net worth now estimated $250 million or so.

Perdue, Franklin Parsons. Salisbury, Md. 71. Checks with industry experts suggest Perdue Farms worth substantially less than previously thought.

Pilaro, Anthony Martin. Southampton, N.Y. 55. Duty Free Shoppers feeling weakness in tourism, rising costs of doing business. Pilaro's 10% share now believed worth well below 1991's minimum.

Posner, Victor. Miami Beach. 73. With visible stock holdings collapsing and real estate in decline, what we can see is far below this year's minimum. But watch next year.

Sedwick, Jud. Butler, Pa. 77. Decreased values in cable TV industry slash Jud's 1990 $315 million estimate to well below our $275 million cutoff this year.

Simon, Herbert. Indianapolis et al. 56. Shopping mall developer splits business with brother Mel 30/60. This year, Mel estimated at $300 million, so. . . .

Zuckerman, Mortimer Benjamin. NYC et al. 54. Fortune estimated at $375 million or more 1990, but with his real estate mostly in the depressed Northeast, equity has no doubt shrunk drastically.

Left behind

Draper, Irene Carpenter and family. Montchanin, Del. 80. This du Pont and family not clearly worth $275 million or more. Others are richer.

Lunger, Mary Jane du Pont and family. Wilmington. 77. Another rich du Pont, but not clearly rich enough this year.

McEvoy, Nan Tucker. San Francisco. 72. Her share San Francisco Chronicle, etc. still believed worth $270 million, some $5 million below 1991 cutoff.

Mellon, Richard Prosser
Mellon, Seward Prosser
Milbury, Cassandra Mellon
Ligonier, Pa. 52; 49; 51. These surviving adopted children of the late Richard King Mellon have trusts believed worth at least $800 million. But that's split three ways.

Realigned

Graham, Katharine
Graham, Donald E. and family
Washington, D.C. Mother, 74, son 46, share control of Washington Post Co.; stock recently worth $360 million. Cited this year as family entry.

Kaskel, Howard. NYC. 54. Interests attributed solely to him in previous years reported shared equally with 2 sisters, their families. Now cited in family entry.

Milstein, Paul
Milstein, Seymour
NYC. 69; 71. The brothers' NYC hotels, apartments, office buildings much less valuable this year in the real estate recession, but worth a family entry.

Removed

Disney, Lillian Bounds
Lund, Sharon Disney
Miller, Diane Disney
LA. Walt Disney widow Lillian, daughters Diane, 58, and Sharon, 54, said by their attorneys to have "gifted" or sold numerous family Disney shares over the years. No public documentation known; removed pending resolution.

Gruss, Joseph S. and family. NYC. 88. Revising previous double-counting of some oil assets cuts estimated value down to $270 million.

Penske, Roger. Red Bank, N.J. 54. Cars and engines. Former race car driver who bought fledgling Detroit Diesel late 1980s. Turned company around. His percentage ownership appears less than originally believed.

Riklis, Meshulam. Beverly Hills. 67. May still have more than enough to make The Four Hundred, but known investments are the troubled Riviera Casino and real estate. With the industry in a slump and his casino suffering cash flow problems, he is off the list pending further information on his wealth. Skipping his Trump Tower office with rent unpaid another troubling sign. ■

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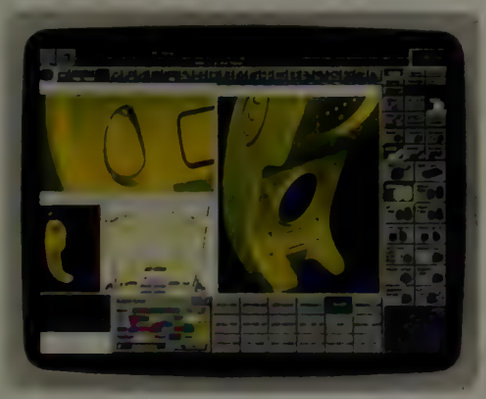

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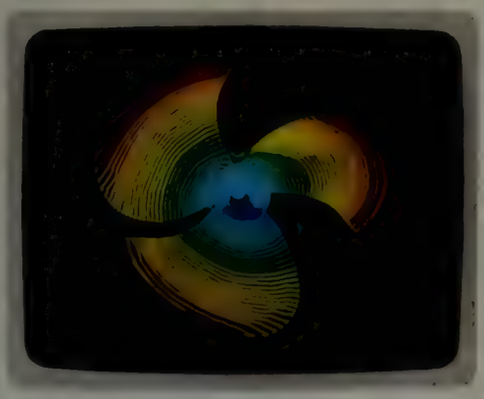

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Some of the people who slipped off The Forbes Four Hundred didn't slip off very far. Others, meanwhile, keep moving up and are knocking at the gate.

Maybe after the recession?

Lowell Jay Milken

Investments, junk bonds. Los Angeles. 42. Married, 3 children. U. California Berkeley, UCLA Law School. Short stint as lawyer; joined Drexel Burnham Lambert, brother Michael 1978 in fledgling junk bond operation. Became brother's behind-the-scenes right-hand man. Advised on tax law, managed side investments: real estate, securities. Salary 1984-87 over $100 million. Involved in numerous partnerships with brother. Indicted for racketeering. Mike bargained with prosecutors—demanded charges against Lowell be dropped for guilty plea. Government obliged (but Drexel suing both). Mike jailed; Lowell free. And rich. Net worth believed nearly $275 million; his lawyers deny.

Jennifer Johnson Duke
James Loring Johnson

Princeton, N.J. Two youngest children of John Seward Johnson (d. 1983). Father inherited portion of Johnson & Johnson pharmaceuticals empire and set stage for enormous 1986 legal battle between his 6 children and third wife Barbara Piasecka Johnson *(which see)*. Jennifer and James each got $6.2 million; main wealth from 1944 family trusts. Jennifer: Jacksonville, Fla. 50. Divorced, remarried; 2 children from first marriage. Portrait photographer. Untouched trust worth at least $275 million. James: Hunterdon County, N.J., East Hampton, N.Y. 46. Married; 2 children, 4 stepchildren. Operates farm; skilled painter. Also $275 million. Total for 5 living children, $980 million.

Karsten Solheim

Golf clubs. Phoenix. 80. Married, 4 children. Born Bergen, Norway; son of cobbler. To U.S. 1913. University of Washington, engineering, 1 year; ran out of money. Ran shoe repair shop 1930s; sold cooking utensils during WWII. Joined GE 1953; helped develop first portable TV, rabbit-ear antenna. Took up golf 1954; got hooked. Fixed putting game with own, improved putters. Named clubs Ping, for sound when striking ball. Pros bought: Boros, Nicklaus. Added irons 1969. Had son drive car 100mph, hung clubs out window to test air drag. Sales estimated over $110 million, margins *very* high. Also aluminum parts for defense, space shuttle. Net worth estimated $270 million.

Frank Sherman Morgan
Sherman W. Dreiseszun

Nephew, uncle. Real estate, banks. Kansas City, Mo. Frank: 64. Divorced, 5 children. Sherman: 67. Married, 2 children. Frank (son of European immigrant) traveling salesman, fatherless in high school, Navy storekeeper third class WWII. Quit college, joined youthful Uncle Sherm manufacturing women's sportswear 1950; duo started first Kansas City bank and shopping center 1964; work intensely, privately: "It's like they're married." Banks now have assets over $4 billion, though one property recently taken over by RTC; real estate worth at least $200 million. Morgan fanatic sports enthusiast. Two control visible assets through myriad trusts, straw men; pair worth at least $540 million.

Mortimer Benjamin Zuckerman

Real estate. NYC, Washington, D.C., Aspen. 54. Single. Born Montreal, father a candy and tobacco wholesaler; 2 law degrees (including Harvard), Wharton M.B.A. Joined Cabot, Cabot & Forbes 1962, made $5 million in 5 years. Launched Boston Properties 1970; pal Edward Linde joined to build warehouse, office space Boston,

Washington, D.C. Later NYC. Now over 11.5 million square feet. Developments for NASA, Comptroller of Currency, federal judiciary in works. Second career, publisher: bought Atlantic Monthly 1980; U.S. News & World Report 1984 (with real estate); sold building to Japanese for unprecedented $490/sq. ft. 1987. Becoming "a voice in public affairs." Amid real estate decline, may still exceed $265 million.

Bill Daniels

Cable TV. Denver. 71. Four divorces, 2 stepchildren. Navy fighter pilot WWII, Korea; astounded by TV in Denver restaurant 1952, found oilmen to back coaxial cable system wiring local living rooms. By 1958, dominant industry banker, broker: "I would leave town on Christmas Day to do a deal." Business fell from 1980 as competition stiffened. Admitted drinking problem to employees 1985; detoxed at Betty Ford Clinic, emerged to rebuild. Sold bulk of cable operations 1988 to UAE, portion of brokerage to employee group; currently building new sports networks (Prime Ticket and Prime Network). Gave $10 million to U. of Denver for M.B.A. program emphasizing ethics. Estimated over $265 million.

Franklin Parsons Perdue

Chickens. Salisbury, Md. 71. Twice divorced, remarried; 4 children from first marriage. Quit teachers college to join father's egg business. Switched to broilers 1940; post-WWII chicken boom put many feathers in company coffers. Added feed, processing; created one of first integrated chicken operations; then built industry's first brand name. Perdue nation's 4th-largest, 1990 sales $1 billion. Frank celebrity from own ads: "It takes a tough man to make a tender chicken." So tough he met with NYC godfather Paul Castellano to block union organizers 1980. Stepped down as chief executive in 1988. Frank's 90% estimated $260 million.

Anne Hendricks Bass

Divorce. NYC. 50. Split with Sid Bass 1989 after 21-year marriage; 2 daughters. Indianapolis-born, surgeon's daughter; Vassar. Self-proclaimed perfectionist, "Sharing beauty with family and friends is, in part, a responsibility." Former Fort Worth socialite, now Manhattan socialite: International Council of Museum of Modern Art; Board and Executive Committee NYC Ballet; "I'm there to support, I'm there to believe in the artists and let them flourish." Personal best staging fundraising galas: $650,000. Settlement with Sid included 1.38 million shares Disney stock, $5 million Fifth Ave. apartment; Degas, Rothko, Monet. Net worth estimated $260 million. ■

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Had you invested in the public companies underlying many of the fortunes in the first Forbes Four Hundred issue (and held on), your net worth would be getting up there, too.

Coattails to ride

By Wendy Tanaka

IN THIS, our tenth year of publishing The Forbes Four Hundred, we thought we'd see how the publicly owned stocks behind the fortunes on our first issue's list have performed over the decade. The results are impressive. That first edition included fortunes based on the 61 publicly held stocks listed below. As a group, they have risen 295% (excluding dividends), compared with 220% for the S&P 500. To put it another way: Had you invested $100,000 in each of these 61 issues when you picked up the very first Forbes Four Hundred in the fall of 1982, your $6.1 million would now be $24 million. Invested in the S&P 500, the principal would have grown to $19.5 million.

Only four of those original stocks that are still traded are down. Wang Labs is off 84% since 1982. The others—DWG, Pennsylvania Engineering and NVF—are linked to abrasive financier Victor Posner. (When Mary Kay Cosmetics went private and A.C. Nielsen was acquired, their last public trades were below their 1982 prices.) All the rest are up, at least a bit. Fifty have outpaced inflation; some have been extraordinary winners. Among the latter: Warren Buffett's Berkshire Hathaway, up 1,462%; Leslie Wexner's Limited, up 2,072%; Sam Walton's Wal-Mart, up 2,138%.

Time will tell

Name/company	1991 value of $100,000 investment	% change
■ **Abercrombie**/Cameron Iron Works	$139,583	40%
Albertson/Albertson's Inc.	834,356	734
■ **Belfer**/Belco Petroleum	171,795	72
Blaustein/Crown Central Petro	1,211,429	1111
Brown/Brown-Forman	331,343	231
Buffett/Berkshire Hathaway	1,562,500	1462
Busch/Anheuser-Busch	535,579	436
Cox/Dow Jones	156,122	56
■ **Darrin**/Automatic Switch	133,977	34
De Menil/Schlumberger	204,930	105
Disney/Walt Disney	807,018	707
Dorrance/Campbell Soup	868,874	769
Du Pont/El Du Pont	401,106	301
Ford/Ford Motor	504,167	404
Fuqua/Fuqua	204,310	104
Galvin/Motorola	275,258	175
■ **Getty**/Getty Oil	237,762	138
Graham/Washington Post	576,101	476
Grainger/WW Grainger	441,468	345
Heinz/Heinz	710,662	611
Hess/Amerada Hess	229,703	130
Hewlett, Packard/Hewlett-Packard	194,756	95
Hilton/Hilton Hotels	225,784	126
Jobs/Apple Computer	544,000	444
■ **Keck**/Superior Oil Co.	148,963	149
■ **Kerkorian**/MGM/UA	127,778	28
Kerkorian/MGM Grand Hotel	175,439	75
Kieckhefer/Weyerhaeuser	141,548	42
Knight, James/Knight-Ridder	302,857	203
Knight, Philip/Nike	211,828	112
Kroc/McDonald's	398,104	298

Name/company	1991 value of $100,000 investment	% change
Mandel/Premier Industrial	$457,851	358%
Marriott/Marriott	188,401	88
Mitchell/Mitchell Energy & Dev	133,085	33
Moore/Intel	435,338	335
■ **Nielsen**/AC Nielsen	94,835	–5
Olsen/Digital Equipment	156,740	57
Paley/CBS	339,247	239
■ **Perot**/Electronic Data Systems	256,934	157
Petrie/Petrie Stores	204,348	104
Posner/DWG	95,200	–5
Posner/NVF	2,174	–98
Posner/Pennsylvania Engineering	1,087	–99
■ **Robins**/AH Robins	251,667	152
■ **Rogers**/Mary Kay Cosmetics	80,420	–20
Rollins/Rollins Inc	237,365	137
■ **Shakarian**/General Nutrition	176,923	77
Singleton/Teledyne	354,687	255
Smith/General Cinema	180,653	81
■ **Taper**/First Charter Financial	204,310	104
Thorne/Commerce Clearing House	120,720	21
Turner, Ted/Turner Broadcasting	563,636	464
■ **Turner, Tom**/Sigmor	104,478	5
Vollum/Tektronix	145,988	46
Walton/Wal-Mart	2,237,762	2138
Wang/Wang Labs	16,495	–84
■ **Wasserman**/MCA	289,051	189
Weis/Weis Markets	334,756	235
Wexner/Limited	2,172,298	2072
Woodruff/Coca-Cola	934,545	834
Zimmerman/Pic 'N Save	197,101	97
Total	$23,977,195	295%

■ For all merged or acquired companies, the 1991 price is based on per-share value at time of transaction.

Nearly all these stocks had a controlling stockholder with an owner's interest in their progress in 1982. Is their superior overall performance chance? After ten years, it seems unlikely.

Oil spills are everybody's enemy. That's why a global oil giant has engaged Hull and Cargo Surveyors, Inc., a Continental subsidiary, to inspect its chartered tank barges and help avoid spills.

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Continental Insurance.

Rules of the chase

OUR ESTIMATES of people's net worth are deliberately conservative. It is possible to say with some confidence that a person is worth more than a given amount; it is often extremely difficult or impossible to establish exactly how much more. Our basic operating principle is to think in terms of how much a prudent buyer, knowing what we know, might be willing to pay for a person's net assets.

To arrive at coherent estimates of wealth, FORBES adopts a number of basic rules:

- Blocks of publicly traded stock are priced at the market close on Sept. 4.
- Privately held companies are usually valued according to estimated earnings or, preferably, cash flow, and to prevailing ratios for similar companies in similar businesses.
- When earnings and cash flow aren't known or are suspect, we adopt rule-of-thumb conventions common to the relevant industry. Television and radio stations, cable systems and some newspapers are valued for us by authoritative media brokers who track them professionally *(see Acknowledgments, p. 303)*.
- Among oil and gas producers we rarely go beyond putting fair valuation on their reserves, to be conservative. Some oil and real estate magnates have substantial assets not in their own names, so in one or two cases we were forced to rely on consensus estimates of knowledgeable peers. These estimates, naturally, are treated cautiously.

Often it isn't even clear exactly who owns a great fortune. It is frequently parked, at least partly, in the names of the immediate family or concealed in private investment companies. Or, more difficult to find, it is held in trusts, where separate elements of ownership (control of principal, receipt of income, power to name heirs, etc.) are deliberately spread among different people to defend against inheritance tax laws.

- In the matter of trusts and other intrafamily arrangements, we proceed on a case-by-case basis, applying common sense. Most plainly exist to carry out a normal pattern of inheritance (to husbands, wives or offspring) and to minimize inheritance taxes. We look at who controls the wealth. Trusts are generally attributed to the person who created the wealth, if still alive and in control; or to the principal controlling family member or members (and not the family lawyers).

Obversely, spendthrift trusts, which are meant to keep control out of the hands of beneficiaries, are not credited to the beneficiaries; only estimated trust income is counted.

Lawyers sometimes say a trust is "owned" by those who ultimately will receive the principal. Usually, that means the next generation of the family in question. But, in fact, the next generation often has no power to spend or invest principal or to disburse income to themselves. Some are still children; some heirs may be yet unborn.

It is difficult to take such "ownership" seriously, or to count so powerless an "owner" as one of the richest people in America. It is true that a controlling person's powers may be weakened by the limitations of a trust. But every other party's claim to present ownership is far weaker still.

Irrevocable charitable trusts and foundations are not counted.

Wealth in the names of spouses and other *immediate* family members is sometimes assigned to the principal family member. Where a family member's shares are sufficient to entitle him or her to a place among the richest people in America, however, we generally list him or her separately. And we do the same with immediate family members split by divorce or other internal family differences. ■

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Name	Page	Residence	Age	Worth ($mil)	Primary sources
A					
Albertson, Joseph Albert	196	Boise, Idaho	85	930	Albertson's Inc.
Alexander, Norman E.	238	Scarsdale, N.Y.	77	455	Sequa Corp.
Allbritton, Joe Lewis	247	Houston	66	400	Media
Allen, Charles Jr.	241	NYC	88	430	Stock market
Allen, Herbert	241	NYC	83	430	Stock market
Allen, Herbert Anthony	241	NYC	50	430	Stock market
Allen, Paul Gardner	152	Mercer Island, Wash.	38	2,400	Microsoft
Andersen family	275	Bayport, Minn.		750	Windows
Anderson, John Edward	238	Bel Air, Calif.	74	450	Beverage distribution
Andreas, Dwayne Orville and family	256	Bal Harbour, Fla.	73	335	Archer Daniels Midland
Annenberg, Walter Hubert	162	Wynnewood, Pa.	83	1,600	Publishing
Anschutz, Philip Frederick	184	Denver	51	1,000	Oil
Anthony, Barbara Cox	160	Honolulu	68	2,000	Inheritance (Cox Enterprises)
Argyros, George Leon	269	Newport Beach, Calif.	54	290	Real estate
Arison, Ted	156	Tel Aviv, Israel	67	2,300	Cruise ships
Arrillaga, John	249	Palo Alto, Calif.	53	365	Real estate
Ashton, Alan C.	218	Orem, Utah	49	600	WordPerfect
Autry, Orvon Gene	264	Los Angeles	84	300	Broadcasting
Avery, Alice O'Neill and family	264	Los Angeles	74	300	Inheritance (real estate)
B					
Bacardi family	275	Puerto Rico et al.		750	Liquor
Ballmer, Steven Anthony	200	Bellevue, Wash.	35	850	Microsoft
Bancroft family	275	NYC		1,500	Inheritance (Dow Jones)
Baoudjakdji, Millicent V.	198	Los Angeles	51	440	Inheritance
Bass, Anne Hendricks †	303	NYC	50		Divorce
Bass, Edward Perry	195	Fort Worth	46	940	Oil
Bass, Lee Marshall	168	Fort Worth	35	1,350	Oil
Bass, Robert Muse	162	Fort Worth	43	1,600	Oil
Bass, Sid Richardson	168	Fort Worth	48	1,350	Oil
Bastian, Bruce W.	218	Orem, Utah	43	600	WordPerfect
Batten, Frank Sr.	218	Virginia Beach, Va.	64	600	Publishing
Bean (Gorman) family	275	Freeport, Me.		400	L.L. Bean
Bechtel, Stephen Davison Jr. and family	168	San Francisco	66	1,300	Engineering
Behring, Kenneth Eugene	256	Blackhawk, Calif.	63	330	Developer
Belfer, Arthur Bejer and family	240	NYC	83	450	Oil
Belk family	275	Charlotte, N.C.		450	Retailing
Bennett, William Gordon	230	Las Vegas	66	500	Circus Circus Enterprises
Benson, Craig ★	242	Rochester, N.H.	36	345	Cabletron Systems
Berkley, William Robert	259	Greenwich, Conn.	45	320	Food processing
Berry, Jack Monteith Sr. and family	264	Winter Haven, Fla.	74	300	Citrus grower
Berry, John William Sr.	241	Dayton, Ohio	69	440	Yellow Pages
Binger, Virginia McKnight	265	Wayzata, Minn.	75	300	Inheritance (3M)
Bingham family	275	Louisville		350	Newspapers
Blaustein, Morton K.■	298	Baltimore	Deceased		Inheritance (oil)
Block family	276	NYC area		700	Pharmaceuticals
Bluhm, Neil Gary	232	Winnetka, Ill.	53	500	Real estate
Borg, Malcolm Austin	262	Englewood, N.J.	53	300	Publishing
Bredin, Octavia Mary du Pont and family	248	Greenville, Del.	78	375	Inheritance (Du Pont Co.)
Bren, Donald Leroy	178	Newport Beach, Calif.	59	1,100	Real estate
Brennan, Bernard F.	247	Winnetka, Ill.	53	390	Montgomery Ward
Brittingham family	276	Dallas		470	Dal-Tile Group
Broad, Eli	254	Los Angeles	58	335	Housing, insurance
Bronfman, Edgar Miles Sr.	156	NYC	62	2,300	Seagram Co.
Brown family	276	Louisville		1,000	Liquor
Brown, Harold ■	298	Boston	66		Real estate
Brown, Jack E.	258	Midland, Tex.	66	325	Oil
Buffett, Susan Thompson ★	252	Omaha	59	350	Berkshire Hathaway

★ New entry. ☆ Returnee. ■ Dropout. †Near miss.

Name	Page	Residence	Age	Worth ($mil)	Primary sources
Buffett, Warren Edward	151	Omaha	61	4,200	Stock market
Bullitt family	276	Seattle		400	Broadcasting
Busch family	276	St. Louis		1,300	Inheritance (Anheuser-Busch)
Butt, Charles C.	248	San Antonio, Tex.	53	380	Grocery stores
C					
Cafaro, William Michael and family	216	Hubbard, Ohio	78	655	Shopping malls
Campbell family	276	Hawaii et al.		675	Real estate
Cargill, James R.	200	Minneapolis	67	835	Inheritance (Cargill, Inc.)
Cargill, Margaret	200	La Jolla, Calif.	71	835	Inheritance (Cargill, Inc.)
Carlson, Curtis LeRoy	188	Long Lake, Minn.	77	1,000	Entrepreneur
Caruth family	276	Dallas		500	Inheritance (real estate)
Carver, Lucille	242	Muscatine, Iowa	74	420	Inheritance (Bandag, Inc.)
Chambers, Anne Cox	160	Atlanta	71	2,000	Inheritance (Cox Enterprises)
Chandler family	278	Los Angeles et al.		1,300	Times Mirror Co.
Chase, David Theodore	250	West Hartford, Conn.	62	355	Real estate
Clapp, Norton and family	253	Seattle	85	350	Inheritance (Weyerhaeuser)
Clark family	278	Cooperstown, N.Y.		390	Singer Manufacturing Co.
Clark, Alfred James ■	298	Easton, Md.	62		Construction
Cohen, Arthur G. ■	298	Kings Point, N.Y.	60		Real estate
Cohn, Seymour	248	Palm Beach County, Fla.	81	390	Real estate
Colket, Tristram C. Jr. ☆	204	Paoli, Pa.	53	285	Campbell stock
Collier family	278	Naples, Fla. et al.		1,000	Real estate
Comer, Gary Campbell ☆	265	Chicago, Ill.	63	300	Lands' End
Congel, Robert J.	260	Fayetteville, N.Y.	56	310	Shopping malls
Connell, Grover	258	Westfield, N.J.	74	325	Commodities
Conover, Catherine Mellon	272	Washington, D.C.	55	275	Inheritance
Cook, Jane Bancroft	234	Cohasset, Mass.	79	480	Inheritance (Dow Jones)
Cook, William Alfred	218	Bloomington, Ind.	60	600	Catheters
Cooke, Jack Kent	184	Middleburg, Va.	78	1,000	Real estate
Cooke, Phoebe Hearst	198	San Francisco	64	440	Inheritance
Coors family	278	Golden, Colo.		415	Beer
Copley, Helen Kinney	216	La Jolla, Calif.	68	640	Publishing
Coulter, Wallace Henry	204	Miami Springs, Fla.	79	800	Blood
Cowles (Gardner) family	278	Minneapolis, NYC et al.		525	Newspapers
Cowles (William) family	280	Spokane		450	Newspapers
Cox, Edwin Lochridge Sr. ■	298	Dallas	70		Oil
Cox, John Lee ☆	230	Midland, Tex.	66	500	Oil
Crain, Gertrude Ramsay ■	298	Chicago	80		Publishing
Crown, Lester and family	164	Wilmette, Ill.	66	1,600	Inheritance
Cullen family	280	Houston		500	Oil
Culverhouse, Hugh Franklin	258	Tampa, Fla.	72	325	Real estate
Currier, Andrea B.	263	The Plains, Va.	35	300	Inheritance
Currier, Lavinia M.	263	The Plains, Va.	34	300	Inheritance
Currier, Michael S.	263	NYC	30	300	Inheritance
D					
Dabah, Morris and family ★	244	NYC	66	420	Gitano Group
Daniels, Bill ■ †	298, 303	Denver	71		Cable
Darden, Constance Simmons du Pont and family	248	Norfolk, Virginia	87	375	Inheritance (Du Pont Co.)
Dart, William A. ★	228	Sarasota, Fla.	64	500	Dart Container
Davenport, Elizabeth Lupton	246	Lookout Mountain, Tenn.	58	400	Coca-Cola bottler
Davidson, William Morse	208	Bloomfield Hills, Mich.	68	710	Guardian Industries
Davis, James Elsworth	244	Jacksonville, Fla.	84	400	Winn-Dixie Stores
Davis, Marvin Harold	170	Beverly Hills	66	1,300	Oil, real estate
Davis, Shelby Cullom	224	Tarrytown, N.Y.	82	580	Investment banking
Dayton family	280	Minneapolis		1,000	Dayton Hudson
DeBartolo, Edward John	164	Boardman, Ohio	82	1,400	Shopping centers
Dedman, Robert Henry Sr.	212	Dallas	65	700	Country clubs

★ New entry. ☆ Returnee. ■ Dropout. †Near miss.

Name	Page	Residence	Age	Worth ($mil)	Primary sources
Dell, Michael ★	264	Austin, Tex.	26	300	Computers
de Menil family	280	Houston, NYC		445	Inheritance
DeVos, Richard Marvin	151	Ada, Mich.	65	2,900	Amway
de Young family	280	San Francisco et al.		750	Newspapers
Disney, Lillian Bounds ■	300	Los Angeles	71		Inheritance (Walt Disney Co.)
Disney, Roy Edward	235	Los Angeles	61	470	Inheritance (Walt Disney Prods.)
Dixon, Fitz Eugene	247	Lafayette Hill, Pa.	68	400	Inheritance
Dolan, Charles Francis	241	Oyster Bay, N.Y.	65	440	Cable television
Donnelley family	280	Chicago origin		985	R.R. Donnelley & Sons
Dorrance, Bennett	170	Paradise Valley, Ariz.	45	1,250	Inheritance (Campbell Soup)
Dorrance, John T. III	170	Devil's Tower, Wyo.	47	1,250	Inheritance (Campbell Soup)
Draper, Irene ■	300	Montchanin, Del.	80		Inheritance (Du Pont Co.)
Dreiseszun, Sherman W. ■ †	298, 302	Kansas City, Mo.	67		Shopping centers
Duda family	280	Oviedo, Fla.		325	Agriculture
Duke, Doris	206	Somerville, N.J.	78	750	Inheritance
Duke, Jennifer Johnson †	302	Jacksonville, Fla.	50		Johnson & Johnson
du Pont (Pierre Samuel II) family	280	Wilmington, Del.		8,600	Inheritance (Du Pont Co.)
du Pont, Alexis Felix Jr. and family	252	Wilmington, Del.	85	350	Inheritance (Du Pont Co.)
du Pont, Irénée Jr. and family	248	Montchanin, Del.	71	375	Inheritance (Du Pont Co.)
du Pont, Willis Harrington and family	264	Palm Beach, Fla.	55	300	Inheritance (Du Pont Co.)
Duchossois, Richard Louis ■	298	Barrington, Ill.	70		Manufacturing
Durst, David M.	272	Chappaqua, N.Y.	66	275	Real estate
Durst, Royal H.	272	Scarsdale, N.Y.	74	275	Real estate
Durst, Seymour B.	272	NYC	78	275	Real estate
Dyson, Charles Henry	232	NYC	82	500	Conglomerator

E

Earhart, Anne Catherine Getty	249	San Francisco Bay area	39	365	Inheritance (oil)
Edson, John Orin	228	Seattle	59	525	Manufacturing
Ellis, Alpheus Lee	246	Tarpon Springs, Fla.	85	400	Banking
Ellison, Lawrence J.	249	Atherton, Calif.	47	365	Oracle Systems
Engelhard, Jane B.	250	Far Hills, N.J.	73	360	Inheritance
Evans, James Emmett	264	Dade City, Fla.	91	300	Citrus grower
Evans, Thomas Mellon	269	NYC	81	300	Investments

F

Farmer, Richard T. ★	247	Indian Hill, Ohio	56	395	Cintas Corp.
Feeney, Charles F.	200	London, England	60	850	Duty Free Shoppers
Field, Frederick W. (Ted)	212	Beverly Hills	39	700	Inheritance (department stores)
Field, Marshall V	212	Lake Forest, Ill.	50	450	Inheritance (department stores)
Fireman, Paul	216	Newton, Mass.	47	625	Reebok
Firestone family	281	Akron, Ohio		300	Tires
Fisher, Donald George	208	San Francisco	63	735	The Gap
Fisher, Doris F.	208	San Francisco	60	735	The Gap
Fisher, John J. ★	208	San Francisco	30	280	The Gap
Fisher, Lawrence	241	NYC	81	440	Real estate
Fisher, Max Martin	254	Franklin, Mich.	83	340	Oil
Fisher, Robert J. ★	208	San Francisco	36	295	The Gap
Fisher, William F. ★	208	San Francisco	34	280	The Gap
Fisher, Zachary	241	NYC	80	440	Real estate
Flatley, Thomas John ■	298	Milton, Mass.	60		Real estate
Flint, Lucile du Pont and family	248	Greenville, Del.	76	375	Inheritance (Du Pont Co.)
Ford, Josephine Clay and family	222	Grosse Pointe Farms, Mich.	68	340	Inheritance (Ford Motor Co.)
Ford, William Clay and family	222	Grosse Pointe Shores, Mich.	66	600	Inheritance (Ford Motor Co.)
Forman, Michael Robert	266	Bel Air, Calif.	56	300	Theaters
Franchetti, Anne and family	224	Seal Cove, Me.	70s	325	Milliken & Co.
Freeman, Mansfield	222	Greensboro, Vt.	96	425	Insurance
Fribourg, Michel and family	180	NYC	78	1,100	Grain trader
Frost, Phillip☆	254	Miami	54	340	Pharmaceuticals

★ New entry ☆ Returnee ■ Dropout †Near miss

Name	Page	Residence	Age	Worth ($mil)	Primary sources
G					
Galbreath, Daniel Mauck ■	300	Columbus, Ohio	62		Real estate
Galesi, Francesco ■	300	NYC	60		Real estate
Gallo, Ernest	262	Modesto, Calif.	82	300	Wine
Gallo, Julio	262	Modesto, Calif.	81	300	Wine
Galvin, Robert William	250	Barrington Hills, Ill.	69	355	Motorola
Gates, Charles Cassius Jr. and family	246	Denver	70	400	Gates Corp.
Gates, William Henry III	150	Seattle	35	4,800	Microsoft
Gaylord, Edward Lewis	180	Oklahoma City	72	1,100	Broadcasting
Geffen, David	196	Malibu, Calif.	48	880	Music
Getty, Caroline Marie	249	San Francisco	34	365	Inheritance (oil)
Getty, Eugene Paul (J. Paul Jr.)	252	London, England	59	350	Inheritance (oil)
Getty, Gordon Peter	168	San Francisco	57	1,300	Inheritance (oil)
Glazer, Guilford	247	Beverly Hills	70	400	Real estate
Goldman, Lillian	270	Millneck, N.Y.	69	280	Inheritance
Goldman, Rhoda H. and family ★	206	San Francisco	67	365	Levi Strauss stock
Goodson, Mark Les	247	NYC	76	400	Game shows
Gore family	281	Newark, Del.		500	Gore-Tex
Gottwald, Bruce Cobb	260	Richmond, Va.	58	315	Ethyl Corp.
Gottwald, Floyd Dewey Jr.	260	Richmond, Va.	69	315	Ethyl Corp.
Gould, Kingdon Jr. ■	300	Laurel, Md.	66		Real estate
Graham family	281	Washington D.C.		360	Washington Post Co.
Graham, Donald E. and family ■	300	Washington, D.C.	46		Washington Post Co.
Graham, Katharine ■	300	Washington, D.C.	74		Washington Post Co.
Grainger, David William ☆	269	Skokie, Ill.	63	290	W.W. Grainger
Green, Pincus	196	Zug, Switzerland	57	800	Commodities trader
Greenberg, Maurice (Hank)	222	NYC	66	585	American International Group
Greenewalt, Margaretta Lammot du Pont ■	298	Greenville, Del.	Deceased		Inheritance (Du Pont Co.)
Gruss, Joeseph S. ■	300	NYC	88		Oil
Guccione, Robert Chas. Jos. Ed. S.	260	NYC	59	310	Publishing
Gund family	281	Cleveland origin		1,300	Inheritance
H					
Haas, Fritz Otto	234	Ambler, Pa.	76	470	Rohm & Haas
Haas, John Charles	234	Villanova, Pa.	73	485	Rohm & Haas
Haas, Josephine and family ★	206	San Francisco	60s	440	Levi Strauss stock
Haas, Peter E. Jr and family ★	206	San Francisco	44	300	Levi Strauss stock
Haas, Peter E. Sr and family ☆	206	San Francisco	73	760	Levi Strauss stock
Haas, Robert D. & family ★	206	San Francisco	49	280	Levi Strauss stock
Haebler family	282	NYC et al.		555	International Flavors & Fragrances
Hall, Donald Joyce	198	Mission Hills, Kans.	63	860	Hallmark Cards
Hamilton, Dorrance Hill	204	Wayne, Pa.	63	790	Inheritance (Campbell Soup)
Hammons, John Quentin	268	Springfield, Mo.	69	300	Real estate
Harbert, John Murdoch III	225	Birmingham, Ala.	70	560	Construction
Hardie, Mary Jane Hoiles	246	Marysville, Calif.	69	400	Newspapers
Hardy, Joseph Alexander III and family	265	Farmington, Pa.	68	300	Building supplies
Hearst, David Whitmore Jr.	198	Los Angeles	46	440	Inheritance
Hearst, George Randolph Jr.	198	Los Angeles	64	440	Inheritance
Hearst, Randolph Apperson Jr.	198	NYC	75	875	Inheritance
Hearst, William Randolph Jr.	198	NYC, N.Y.	83	875	Inheritance
Heinz, Henry John III ■	298	Fox Chapel, Pa.	Deceased		H.J. Heinz Co.
Heinz, Teresa F. ★	241	Fox Chapel, Pa.	53	445	H.J. Heinz Co.
Helmsley, Harry Brakmann	170	NYC	82	1,300	Real estate
Herb, Marvin ★	240	Chicago	54	450	Coca-Cola bottler
Hess, Leon	212	NYC	77	690	Amerada Hess Corp.
Hewlett, William Redington	188	Portola Valley, Calif.	78	1,000	Hewlett-Packard
Heyman, Samuel J. ★	180	New York	52	1,100	GAF Corp
Hill, Margaret Hunt and family	184	Dallas	75	1,000	Inheritance (oil)
Hillenbrand family	282	Batesville, Ind. et al.		1,100	Caskets

★ New entry. ☆ Returnee. ■ Dropout. †Near miss.

Name	Page	Residence	Age	Worth ($mil)	Primary sources
Hillman, Henry Lea	151	Pittsburgh	72	3,300	Industrialist
Hillman, Howard Butcher	244	Greenwich, Conn.	57	415	Inheritance
Hillman, Tatnall Lea	244	Radnor, Pa.	53	415	Inheritance
Hixon family	282	Pasadena		770	Electronic connectors
Hobby, Oveta Culp and family	240	Houston	86	450	Media
Hoiles, Harry Howard	246	Santa Ana, Calif.	75	400	Newspapers
Hollingsworth, John D.	216	Greenville, S.C.	73	650	Textile machinery
Horvitz family	282	Cleveland area		750	Inheritance (media)
Hostetter, Amos Barr Jr.	232	Boston	54	500	Cable TV
Houghton, Amory Jr. ★	242	Corning, N.Y.	65	420	Corning
Howard, Robert Staples	232	Rancho Santa Fe, Calif.	67	500	Publishing
Hoyt family	282	NYC et al.		625	Carter-Wallace
Hubbard, Stanley Stub	264	St. Mary's Point, Minn.	58	300	Broadcasting
Huffington, Roy Michael	244	Houston	73	400	Oil
Hughes (Howard) family	282	Calif., Nev.		500	Inheritance (Hughes Aircraft)
Huizenga, H. Wayne ★	270	Fort Lauderdale, Fla.	53	290	Blockbuster Entertainment
Hunt, Caroline Rose	228	Dallas	68	525	Inheritance (oil)
Hunt, Johnnie Bryan ☆	269	Goshen, Ark.	64	295	Trucking
Hunt, Ray Lee and family	174	Dallas	48	1,250	Inheritance (Oil)
Hunting family	282	Grand Rapids, Mich.		670	Steelcase
Huntsman, Jon Meade	238	Salt Lake City	54	450	Plastics
I					
Icahn, Carl Celian	215	Bedford, N.Y.	55	660	Financier
Idema family	282	Grand Rapids, Mich.		670	Steelcase
Ilitch, Michael ★	272	Troy, Mich.	60	280	Little Caesar Pizza
Ingram, Erskine Bronson	225	Nashville, Tenn.	59	550	Barges
Irvine family	283	Va., Calif.		350	Inheritance
J					
Jacobs, Jeremy Maurice	234	East Aurora, N.Y.	51	500	Sports concessions
Jacobs, Richard E.	259	Lakewood, Ohio	66	320	Shopping centers
Jamail, Joseph Dahr Jr.	253	Houston	65	350	Pennzoil settlement
Jenkins family	283	Lakeland, Fla.		640	Publix Super Markets
Jobs, Steven Paul	253	Woodside, Calif.	36	350	Computers
Johnson, Barbara Piasecka	196	Princeton, N.J.	54	940	Inheritance
Johnson, Edward Crosby III and family	178	Boston	61	1,100	Investment management
Johnson, James Loring †	302	East Hampton, N.Y.	46		Johnson & Johnson
Johnson, Samuel Curtis	174	Racine, Wis.	63	1,150	Johnson Wax
Jordan family	283	Boston origin		645	Inheritance
K					
Kalikow, Peter Stephen ■	300	NYC	47		Real estate
Kaskel family	283	NYC		400	Inheritance (real estate)
Kaskel Howard ■	300	NYC	54		Real estate
Kauffman, Ewing Marion	208	Mission Hills, Mo.	75	725	Marion Laboratories
Keck, Howard Brighton	253	Los Angeles	78	350	Superior Oil Co.
Keck, William Myron II	253	Los Angeles	49	290	Superior Oil Co.
Keinath, Pauline MacMillan	200	Unknown	57	560	Inheritance (Cargill, Inc.)
Kelly family	283	Honolulu		400	Hotels
Kelly, William Russell	230	Troy, Mich.	85	500	Kelly Services
Kerkorian, Kirk	195	Beverly Hills	74	965	Investments
Kennedy family	283	Boston origin		350	Inheritance
King family	284	NYC et al.		500	King World Productions
Kleberg family	284	King Ranch, Tex.		1,000	Inheritance
Kluge, John Werner	150	Charlottesville, Va.	77	5,900	Metromedia
Knight, Philip Hampson	168	Hillsboro, Ore.	53	1,350	Nike, Inc.
Koch, Charles de Ganahl	160	Wichita, Kans.	55	1,800	Inheritance
Koch, David Hamilton	160	NYC	51	1,800	Inheritance

★ New entry. ☆ Returnee. ■ Dropout. †Near miss.

Name	Page	Residence	Age	Worth ($mil)	Primary sources
Koch, Frederick Robinson	232	NYC, Monaco, N.Y.	57	500	Inheritance (oil services)
Koch, William Ingraham	232	Palm Beach, Fla.	51	500	Inheritance (oil services)
Kohlberg, Jerome Spiegel Jr.	244	Mount Kisco, N.Y.	66	400	Leveraged buyouts
Kohler family	284	Kohler, Wis. origin		500	Plumbing fixtures
Kravis, Henry R.	238	NYC	47	450	Leveraged buyouts
Krehbiel, John Hammond Sr. and family ☆	242	Lisle, Ill.	85	430	Molex stock
Kroc, Joan Beverly	188	Rancho Santa Fe, Calif.	63	1,000	Inheritance (McDonald's)
L					
Landegger, Carl Clement	249	NYC	61	365	Paper mills
Landegger, George Francis	249	Rye Brook, N.Y.	54	365	Paper mills
Lauder, Estée	216	NYC	ageless	600	Cosmetics
Lauder, Leonard Alan	216	NYC	58	600	Cosmetics
Lauder, Ronald Steven	216	NYC	47	600	Cosmetics
Lauren, Ralph	212	NYC	52	675	Apparel
Lawrence family	284	NYC area		390	Inheritance (real estate)
Lawrence, M. Larry	260	San Diego	65	315	Real estate
Lebensfeld, Harry	250	NYC	87	350	UIS, Inc.
LeFrak, Samuel Jayson	164	NYC	73	1,400	Real estate
Lennon, Fred A.	218	Chagrin Falls, Ohio	85	600	Valves
Lerner, Alfred ☆	269	Shaker Heights, Ohio	58	290	Real estate, banking
Lerner, Theodore Nathan ■	300	Chevy Chase, Md.	65		Real estate
Lesher, Dean Stanley	249	Orinda, Calif.	89	360	Publishing
Levine, Robert ★	242	Stratham, N.H.	33	425	Cabletron Systems
Lewis, Reginald F. ★	254	NYC	48	340	Beatrice International
Lilly family	284	Indianapolis et al.		1,000	Pharmaceuticals
Lindemann, George L.	224	Greenwich, Conn.	55	560	Cable, cellular
Lindner, Carl Henry Jr. and family	204	Cincinnati	72	800	Insurance
Littlefield, Edmund Wattis ☆	268	Burlingame, Calif.	77	300	General Electric
Litwin, Leonard ☆	272	NYC	75	275	Real estate
Louis, John Jeffery	225	Winnetka, Ill.	66	545	Inheritance (Johnson Wax)
Ludwig, Daniel Keith	174	NYC	94	1,200	Shipping
Lund, Sharon Disney & family ■	300	Los Angeles	54		Inheritance
Lunger, Mary Jane du Pont ■	300	Wilmington, Ill.	76		Inheritance
Lupton, John Thomas	246	Lookout Mountain, Tenn.	65	400	Coca-Cola bottler
Lurie, Robert Alfred	235	San Francisco	62	480	Inheritance
Lykes family	286	Tampa, New Orleans et al.		565	Shipping
Lyon, William	253	Coto de Caza, Calif.	69	350	Real estate
M					
Mack family	286	NYC et al.		300	Real estate
MacMillan, Cargill	200	Palm Springs, Calif.	64	560	Inheritance (Cargill, Inc.)
MacMillan, John Hugh III	200	Hillsboro Beach, Fla.	63	560	Inheritance
MacMillan, Whitney	200	Minneapolis	62	560	Inheritance (Cargill, Inc.)
MacMillan, W. Duncan	200	Wayzata, Minn.	61	560	Inheritance (Cargill, Inc.)
Magness, Bob John	240	Englewood, Colo.	67	450	Cable TV
Malkin, Judd David	232	Winnetka, Ill.	53	500	Real estate
Malone, Mary Alice Dorrance	170	Coatesville, Pa.	41	1,250	Inheritance (Campbell Soup)
Mandel, Jack N.	248	Shaker Heights, Ohio	79	390	Premier Industrial Corp.
Mandel, Joseph C.	248	Lyndhurst, Ohio	77	385	Premier Industrial Corp.
Mandel, Morton L.	248	Shaker Heights, Ohio	70	385	Premier Industrial Corp.
Manoogian, Richard Alexander	270	Grosse Pointe Farms, Mich.	55	280	Masco
Marion, Anne Burnett Sowell	256	Fort Worth	52	330	Inheritance
Maritz, William Edward and family	246	St. Louis	62	400	Maritz Inc.
Markkula, Armas Clifford Jr.	212	Woodside, Calif.	49	675	Apple Computer
Marriott family	286	Washington D.C.		690	Inheritance (hotels)
Mars, Forrest Edward Jr.	160	McLean, Va.	60	2,000	Candy
Mars, Forrest Edward Sr.	160	Las Vegas	late 80s	2,000	Candy
Mars, John Franklyn	160	Arlington, Va.	56	2,000	Candy
Marshall, Barbara Hall	198	Kansas City, Mo.	68	430	Inheritance (Hallmark Cards)

★ New entry. ☆ Returnee. ■ Dropout. †Near miss.

Name	Page	Residence	Age	Worth ($mil)	Primary sources
Marshall, James Howard II	225	Houston	86	525	Oil
Mathile, Clayton Lee ★	240	Dayton, Ohio	50	450	Iams pet food
May, Cordelia Scaife	225	Ligonier, Pa.	63	525	Inheritance
May, Irene Sophie du Pont and family	248	Wilmington, Del.	90	375	Inheritance (Du Pont Co.)
May, Peter	222	NYC	48	300	Leveraged buyouts
McCaw, Bruce R. ☆	234	Seattle	45	340	McCaw Cellular
McCaw, Craig O.	234	Bellevue, Wash.	42	480	McCaw Cellular
McCaw, John Elroy Jr. ☆	234	Seattle	40	360	McCaw Cellular
McCaw, Keith W. ☆	234	Seattle	38	345	McCaw Cellular
McClatchy family	286	Sacramento et al.		500	Newspapers
McCulloch, A. Donald Jr.	259	Bryn Mawr, Pa.	44	320	Diet centers
McEvoy, Nan Tucker ■	300	San Francisco	72		Inheritance
McGlothlin, James and family	228	Bristol, Tenn.	51	515	Coal
McGovern, Patrick Joseph	232	Nashua, N.H.	54	500	Publishing
McGraw family	286	NYC et al.		470	McGraw-Hill
McLane, Robert Drayton Jr.	254	Temple, Tex.	55	345	McLane Co.
Mead family	286	Wisconsin Rapids, Wis.		645	Consolidated Papers
Mellon family	286	Pittsburgh area		4,300	Inheritance
Mellon, Paul	200	Upperville, Va.	84	800	Inheritance
Mellon, Richard Prosser ■	300	Ligonier, Pa.	52		Inheritance
Mellon, Seward Prosser ■	300	Ligonier, Pa.	49		Inheritance
Mellon, Timothy	272	Manchester, N.H.	49	275	Inheritance
Meyer, August Christopher	264	Champaign, Ill.	91	300	Broadcasting
Milbury, Cassandra Mellon ■	300	Ligonier, Pa.	51		Inheritance
Milken, Lowell J. †	302	Los Angeles	42		Junk bonds
Milken, Michael Robert	208	Dublin, Calif.	45	700	Financier
Miller, Diane Disney ■	300	Los Angeles	57		Inheritance
Milliken, Gerrish and family	224	Greenwich, Conn.	74	325	Textiles
Milliken, Minot and family	224	NYC	75	325	Textiles
Milliken, Roger and family	224	Spartanburg, S.C.	75	570	Textiles
Mills, Alice Francis du Pont and family	252	Middleburg, Va.	78	350	Inheritance (Du Pont Co.)
Milstein family	287	NYC area		425	Real estate
Milstein, Paul ■	300	NYC	68		Real estate
Milstein, Seymour ■	300	NYC	70		Real estate
Mitchell, George Phydias	218	Houston	72	600	Oil
Monaghan, Thomas Stephen	247	Ann Arbor, Mich.	54	400	Pizza
Moncrief, William Alvin (Tex) Jr.	272	Fort Worth	71	275	Oil
Moody, Robert Lee and family	242	Galveston, Tex.	56	420	American National Insurance
Moore, Gordon Earle	224	Santa Clara County, Calif.	62	585	Intel Corp
Moore, Jerry J.	269	Houston	63	300	Shopping centers
Moores, John Jay	241	Sugar Land, Tex.	47	440	BMC Software
Moran, James Martin	212	Hillsboro Beach, Fla.	73	700	Toyota
Morgan, Frank Sherman ■ †	298, 302	Kansas City, Mo.	64		Real estate
Morris, William Shivers III	253	Augusta, Ga.	57	350	Newspapers
Mugar, David Graves ■	300	Boston	52		Inheritance (broadcasting)
Murdoch, Keith Rupert	180	NYC	60	1,100	Publishing
Murdock, David Howard	168	Bel Air, Calif.	68	1,350	Investments
Murphy family	287	El Dorado, Ark.		405	Oil
N					
Naify, Robert Allen ☆	258	San Francisco	69	320	Tele-Communications
Newhouse, Donald Edward	152	NYC	62	2,800	Publishing
Newhouse, Samuel Irving Jr.	152	NYC	63	2,800	Publishing
Nordstrom family	287	Seattle		1,500	Retailing
Norris family	287	Marshalltown, Iowa		430	Lennox International
Norris, Diana Strawbridge	204	Palm Beach, Fla.	52	320	Campbell stock
O					
O'Conner family	288	Victoria, Tex.		450	Inheritance
O'Neill, Richard Jerome	264	San Juan Capistrano, Calif.	68	300	Inheritance (real estate)

★ New entry. ☆ Returnee. ■ Dropout. †Near miss.

Name	Page	Residence	Age	Worth ($mil)	Primary sources
P					
Packard, David	162	Los Altos Hills, Calif.	79	1,700	Hewlett-Packard
Paley, William S. ■	298	NYC	Deceased		CBS, Inc.
Pamplin, Robert Boisseau Sr. ☆	262	Portland, Ore.	79	300	Textiles
Park, Roy Hampton	228	Ithaca, N.Y.	81	515	Park Communications
Parker, Jack	268	NYC	76	300	Real estate
Paulson, Allen Eugene ■	300	Savannah, Ga.	69		Gulfstream Aerospace Corp.
Paulucci, Luigino Francesco ■	300	Sanford, Fla.	73		Food processing
Pearson, Edith du Pont and family	264	Montchanin, Del.	79	300	Inheritance (Du Pont Co.)
Peery, Richard Taylor	249	Palo Alto, Calif.	51	365	Real estate
Peltz, Nelson	222	Palm Beach, Fla.	49	600	Leveraged buyouts
Pennington, Claude (Doc) and family	252	Baton Rouge, La.	91	350	Oil
Pennington, William Norman	230	Reno, Nev.	68	400	Circus Circus Enterprises
Penske, Roger ■	300	Red Bank, N.J.	53		Auto distributorship
Perdue, Franklin Parsons ■ †	300, 303	Salisbury, Md.	71		Chickens
Perelman, Ronald Owen	162	NYC	48	1,800	Leveraged buyouts
Perenchio, Andrew Jerrold	215	Bel Air, Calif.	60	655	Television
Perot, Henry Ross	156	Dallas	61	2,200	Electronic data management
Perry, Claire Eugenia Getty	249	Irvine, Calif. area	37	365	Inheritance (oil)
Petersen, Robert Einar	265	Beverly Hills	65	300	Publishing
Petrie, Milton	184	NYC	89	1,000	Petrie Stores
Pew family	288	Philadelphia origin		515	Inheritance
Phipps family	288	Pittsburgh origin		2,500	Inheritance (steel)
Pictet, Marion MacMillan	200	Geneva, Switzerland	58	560	Inheritance (Cargill, Inc.)
Pigott family	288	Seattle		740	Inheritance (Paccar)
Pilaro, Anthony Martin ■	300	Southampton, N.Y.	54		Duty Free Shops
Pitcairn family	288	Bryn Athyn, Pa. et al.		950	Inheritance
Pohlad, Carl Ray	208	Minneapolis	76	740	MEI Corp.
Posner, Victor ■	300	Miami Beach	72		Financier
Price, Solomon ☆	254	La Jolla, Calif.	75	335	Price Co.
Pritzker, Jay Arthur	156	Chicago	69	2,250	Financier
Pritzker, Robert Alan	156	Chicago	65	2,250	Financier
Pulitzer family	288	St Louis et al.		570	Inheritance (publishing)
R					
Rainwater, Richard	250	Fort Worth	47	350	Investments
Rangos, John G. Sr.	225	Pittsburgh	62	545	Waste management
Redstone, Sumner Murray	152	Newton Center, Mass.	68	2,800	Movie theaters
Reed family	288	Seattle et al.		1,000	Inheritance (timber)
Reid, Elizabeth Ann	198	Denton, Tex.	69	430	Inheritance (Hallmark Cards)
Reinhart, DeWayne B.	248	La Crosse, Wis.	71	390	Food wholesaler
Resnick, Burton Paul	267	NYC & Rye, N.Y.	54	300	Real estate
Reynolds, Donald Worthington	195	Las Vegas	85	950	Publishing
Rhoads, D. Dean	263	North Palm Beach, Fla.	64	300	Industrialist
Rich, Marc	196	Zug, Switzerland	56	900	Commodities trader
Rich, Robert Edward Sr.	244	Point Abino, Ontario	78	400	Food products
Richardson family	290	Greensboro, N.C. et al.		750	Inheritance (Richardson-Vicks)
Riklis, Meshulam ■	300	Beverly Hills & NYC	66		Finance
Rinker, Marshall Edison (Doc) and family	262	Palm Beach, Fla.	88	300	Cement
Roberts, George R.	238	San Francisco	48	450	Leveraged buyouts
Robinson, Jesse Mack	250	Atlanta	68	355	Banking
Rockefeller (John D.) family	290	NYC et al.		5,000	Inheritance (oil)
Rockefeller (William) family	292	Conn., NYC et al.		300	Inheritance (oil)
Rockefeller, David Sr. and family	178	NYC	76	1,100	Inheritance
Rockefeller, Laurance Spelman	196	NYC	81	900	Inheritance
Rockefeller, Winthrop Paul	200	Winrock Farm, Ark.	43	850	Inheritance
Rollins, Orville Wayne	196	Atlanta	79	930	Entrepreneur
Rose family	292	NYC		400	Real estate
Rosenberg, Ruth Blaustein and family	266	Baltimore	92	300	Inheritance (oil)
Rosenwald family	292	NYC et al.		450	Inheritance (Sears, Roebuck)

★ New entry. ☆ Returnee. ■ Dropout. †Near miss.

Name	Page	Residence	Age	Worth ($mil)	Primary sources
Rowling, Reese McIntosh and family ★	235	Corpus Christi, Tex.	63	465	Oil and gas
Rudin, Jack	218	NYC	67	600	Real estate
Rudin, Lewis	218	NYC	64	600	Real estate
Rust, Eleanor Francis du Pont and family	248	Thomasville, Ga.	84	375	Inheritance (Du Pont Co.)
Ryan, Patrick George	256	Chicago	54	330	Insurance
S					
Sakioka, Roy and family ★	258	Costa Mesa, Calif.	92	325	Real estate
Sammons family	292	Dallas		500	Cable TV
Sandler family	292	Oakland, Calif.		360	Golden West Financial Corp.
Sarofim, Fayez Shalaby	258	Houston	62	320	Money mangement
Saul, B. Francis II	259	Chevy Chase, Md.	59	315	Banking
Scaife, Richard Mellon	225	Shadyside, Pa.	59	550	Inheritance
Scharbauer, Clarence Jr.	240	Midland, Tex.	66	450	Inheritance (oil, land)
Schwan, Marvin Maynard	195	Sioux Falls, S.D.	62	950	Ice cream
Scripps (E.W.) family	292	Cincinnati origin		1,400	Inheritance (newspapers)
Scripps (J.E.) family	292	Detroit area et al.		900	Inheritance (newspapers)
Searle family	292	Chicago et al.		800	Inheritance (G.D. Searle)
Sedwick, Jud ■	300	Butler, Pa.	76		Cable
Segerstrom family	293	Orange Co., Calif.		375	Real estate
Sharp, Peter Jay	257	NYC	61	330	Real estate
Shorenstein, Walter Herbert	268	San Francisco	76	300	Real estate
Silliman, Mariana du Pont and family	248	Montchanin, Del.	80	375	Inheritance (Du Pont Co.)
Simmons, Harold Clark	180	Dallas	60	1,100	Investments
Simon, Herbert ■	300	Indianapolis	57		Shopping centers
Simon, Melvin	268	Indianapolis	65	300	Shopping centers
Simon, William Edward	267	New Vernon, N.J.	63	300	Leveraged buyouts
Simplot, John Richard and family	234	Boise, Idaho	82	500	Potatoes
Singleton, Henry Earl	224	Los Angeles	74	565	Teledyne
Skaggs, Leonard S. Jr.	234	Salt Lake City	68	495	American Stores
Slavik, James Donald and family ★	253	Irvine, Calif.	39	350	W.W. Grainger
Smart, Richard Palmer Kaleioku	265	Honolulu	78	300	Inheritance
Smith family	293	Chicago origin		1,200	Illinois Tool Works
Smith (Charles E.) family	293	Washington, D.C.		800	Real estate
Smith (Dee G.) family	293	Brigham City, Utah		390	Smith's Food & Drug Centers
Smith, Delford Michael ★	228	McMinnville, Ore.	60	500	Air carriers
Smith, Richard Allen	238	Chestnut Hill, Mass.	66	460	General Cinema Corp.
Solheim, Karsten †	302	Phoenix, Ariz.	80		Ping golf clubs
Solomon, Russell	269	Sacramento	66	290	Tower Records
Solow, Sheldon Henry	246	NYC	63	400	Real estate
Sommer, Viola	266	Great Neck, N.Y.	late 60s	300	Inheritance (real estate)
Sorenson, James LeVoy	212	Salt Lake City	71	700	Medical devices
Soros, George	195	NYC	61	975	Money manager
Spangler, Clemmie Dixon Jr. and family	258	Charlotte, N.C.	59	325	Investments
Spanos, Alexander Gus	235	Stockton, Calif.	68	480	Real estate
Spelling, Aaron	269	Holmby Hills, Calif.	68	295	Television
Stahl, Stanley Irving	252	NYC	67	350	Real estate
Steinberg, Saul Philip	260	NYC	52	315	Financier
Stempel, Ernest E. ★	224	Hamilton, Bermuda	75	325	AIG
Stephens, Jackson Thomas and family	238	Little Rock, Ark.	68	450	Investment banking
Stephens, Wilton Robert and family	238	Little Rock, Ark.	84	450	Investment banking
Stern, Leonard Norman	174	NYC	53	1,200	Pet supplies
Strawbridge, George Jr. ☆	204	Chester County, Pa	54	275	Inheritance (Campbell Soup)
Stroh family	293	Detroit		500	Inheritance (beer)
Stryker family	294	Kalamazoo, Mich.		370	Medical supplies
Stuart family	294	Los Angeles, NYC		800	Inheritance (Carnation Co.)
Sulzberger family	294	NYC		500	New York Times Co.
Swig family	294	San Francisco		400	Real estate
T					
Taper, Sydney Mark	258	Beverly Hills	90	325	First Charter Financial Corp.

★ New entry. ☆ Returnee. ■ Dropout. †Near miss.

Name	Page	Residence	Age	Worth ($mil)	Primary sources
Tauber, Laszlo Nandor	228	Potomac, Md.	76	500	Real estate
Taubman, A. Alfred	218	Bloomfield Hills, Mich.	66	500	Real estate
Taylor family	294	Boston origin		455	Inheritance (publishing)
Taylor, Jack Crawford	249	St. Louis	69	365	Auto rental
Temple family	294	Diboll, Tex. origin		710	Inheritance (timber)
Terra, Daniel James	235	Chicago	80	470	Lawter International
Thalheimer, Louis	266	Baltimore	47	300	Inheritance (oil)
Thorne, Oakleigh Blakeman	270	Millbrook, N.Y.	59	285	Commerce Clearing House
Tisch, Laurence Alan	178	NYC	68	1,150	Loews Corp.
Tisch, Preston Robert	178	NYC	65	1,150	Loews Corp.
Turner family	294	Columbus, Ga.		400	W.C. Bradley
Turner, Robert Edward (Ted) III	164	Roswell, Ga.	53	1,400	Turner Broadcasting System
Tyson, Barbara	206	Fayetteville, Ark.	42	550	Tyson Foods
Tyson, Donald John	206	Springdale, Ark.	61	765	Tyson Foods
U					
Ueltschi, Albert Lee	222	Irving, Tex.	74	590	FlightSafety International
Upjohn family	294	Kalamazoo, Mich.		1,260	Inheritance (Upjohn Co.)
V					
Van Andel, Jay	151	Ada, Mich.	67	2,900	Amway
van Beuren, Hope Hill	204	Middletown, R.I.	57	710	Inheritance (Campbell Soup)
Vogel, Jacqueline Mars	160	Bedminster, N.J.	52	2,000	Candy
W					
Wagner, Cyril Jr.	258	Midland, Tex.	57	325	Oil
Walton, Alice L.	150	Rogers, Ark.	42	4,400	Inheritance (Wal-Mart Stores)
Walton, James Lawrence	188	Bentonville, Ark.	69	1,000	Wal-Mart Stores
Walton, Jim C.	150	Bentonville, Ark.	43	4,400	Inheritance (Wal-Mart Stores)
Walton, John T.	150	San Diego	46	4,400	Inheritance (Wal-Mart Stores)
Walton, Sam Moore	150	Bentonville, Ark.	73	4,400	Wal-Mart Stores
Walton, S. Robson	150	Bentonville, Ark.	47	4,400	Inheritance (Wal-Mart Stores)
Ward family	296	Honolulu		500	Real estate
Ward, Louis Larrick	242	Kansas City, Mo.	71	425	Russell Stover Candies, Inc.
Washington, Dennis	228	Missoula, Mont.	57	500	Entrepreneur
Wasserman, Lewis Robert ☆	250	Palm Springs, Calif.	78	350	MCA
Watson family	296	Armonk, N.Y. origin		500	International Business Machines
Weber, Charlotte Colket	204	Ocala, Fla.	48	700	Inheritance (Campbell Soup)
Wege family	282	Grand Rapids, Mich.		670	Steelcase
Weiler family	296	NYC		300	Real estate
Weinberg, Harry ■	298	Honolulu	Deceased		Real estate
Weis, Robert Freeman	235	Sunbury, Pa.	72	400	Weis Markets, Inc.
Weis, Sigfried	235	Lewisburg, Pa.	75	475	Weis Markets, Inc.
Wexner, Bella	234	Columbus, Ohio	77	490	The Limited, Inc.
Wexner, Leslie Herbert	152	Columbus, Ohio	54	2,500	The Limited, Inc.
Weyerhaeuser family	296	St. Paul, Tacoma et al.		920	Inheritance (timber)
Whitney, Betsey Cushing Roosevelt	206	Manhasset, N.Y.	83	775	Inheritance
Whittier family	296	Southern Calif.		650	Inheritance (oil)
Wirtz family	296	Chicago		550	Inheritance (real estate)
Wolfe family	296	Columbus, Ohio et al.		500	Inheritance (newspapers)
Woodner, Ian ■	298	NYC	Deceased		Real estate
Wrigley, William	241	Lake Geneva, Wis.	58	430	Wrigley's
Y					
Yates family	296	Artesia, N.M.		440	Oil
Z					
Zell, Samuel	244	Chicago	50	400	Real estate
Ziff, William Bernard	170	Manalapan, Fla.	61	1,250	Publishing
Zuckerman, Mortimer Benjamin ■ †	300, 302	NYC	54		Real estate

★ New entry. ☆ Returnee. ■ Dropout. †Near miss.

Everybody knew you couldn't sell computers by mail order. Everybody knew it except for young Michael Dell and the handful of lucky folks who backed Dell Computer in its early days.

The kid who turned computers into commodities

By Claire Poole

SHOWN HIS writeup in his 1983 high school yearbook, Michael Dell groans. He's hunched over a computer, his eyes hidden behind the glare of his bottle-thick glasses. A nerd if ever there was one.

Nerd no longer, Dell at 26 wears contact lenses and fashionable suits. He and his wife, Susan, work out on mountain bikes and ski all the big resorts. Dell is also about $300 million richer than he was in 1983. Only in America. Only in computerland.

Dell has made The Forbes Four Hundred after just eight years as founder of Dell Computer Corp., based in Austin, Tex. As much as anyone, he can take credit for turning the personal computer into a commodity. Dell was one of the first to make inexpensive IBM clones. He pioneered the practice, now fairly widespread, of selling and servicing computers by telephone and through mail-order catalogs. By cutting his marketing and distribution costs, Dell was able to undersell manufacturers like IBM and Compaq Computer, and retailers like Computerland and JWP Businessland.

In the beginning we at FORBES were skeptical *(Mar. 7, 1988)*. Would people buy computers by mail? From a 23-year-old?

They would and they did.

Dell Computer is now an international company with sales expected by analysts to surpass $760 million in the fiscal year ending Feb. 3. While most computer companies are in trouble with earnings, Dell's are expected to double, to nearly $46 million.

Michael Dell isn't yet as rich as Apple cofounder Steven Jobs or Microsoft's Bill Gates, but he's well ahead of where they were when they were 26. After taking Dell Computer public in 1988 and cashing out nearly $16 million worth of the stock over the last year, he still owns a 35% stake worth $300 million. He's made a few others rich or richer, too. Among them: E. Lee Walker, a venture capitalist who helped Dell run the company in its early years; and one of Dell's directors, George Kozmetsky, cofounder and a director of Teledyne.

Dell's lucky backers were smart enough to realize that this apparent nerd was actually a brilliant—and determined—businessman. Even as a kid growing up on the west side of Houston, he wanted to "make more money than any other kid in school." To help finance his stamp collection, he went to work at 12 as a water boy and dishwasher at a Chinese restaurant. In his seventh-grade math class, Dell met his first computer. He was 13. By the time he was 16, he had saved $2,000 to buy an Apple II E—which he then took apart to see how it worked.

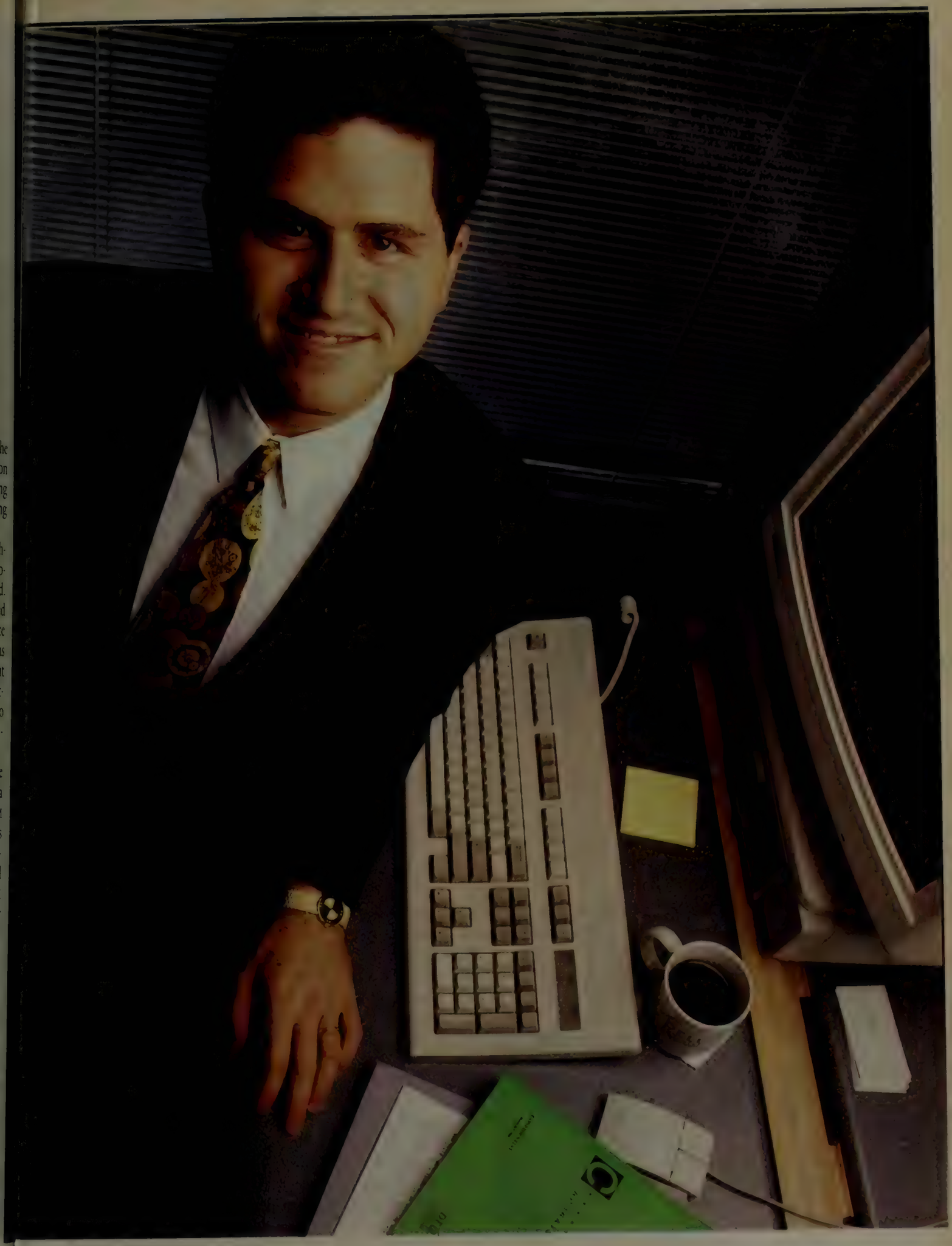
Working after school as a salesman of subscriptions to the *Houston Post*, he found that recently married couples were the best prospects. He began collecting newlyweds' names from marriage licenses filed at the county courthouse, creating a rudimentary database and pitching the names with personalized subscription solicitations. At 18 Dell was setting sales records at the *Post* and making $18,000 a year.

Dell's folks—Alexander, an orthodontist, and Lorraine, a stockbroker—were pleased but perplexed. Dinner-table talk typically revolved around the stock market and the price of oil, so they were happy Michael was interested in making money. But what about an education? That mattered, too. So they shipped him off to the University of Texas' Austin campus in the fall of 1983.

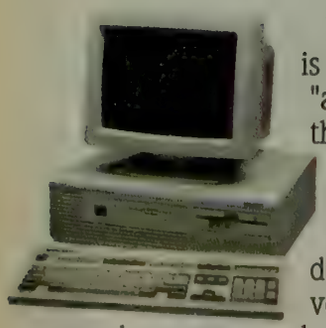
However, Michael regarded the campus as more of a market than a fount of learning. He bought an IBM PC and soon, between classes, was putting together hard-drive kits, consisting of a hard drive, software and cables to be used to upgrade an IBM PC, and selling them to computer enthusiasts around Austin. Before his first semester was over, he was buying computer dealers' excess inventories of IBM PCs at cost, and selling them through the local newspaper and national computer magazines. With little or no overhead he could undercut computer retail stores.

By the time his second semester rolled around, Dell was grossing big money—$30,000 in January, $80,000 by April. Dell was 19.

Then his parents paid him a surprise visit. He rushed to hide the computers stockpiled in his dorm room. Into his roommate's bathtub they went.



THIS IS HOW EASY IT IS TO UPGRADE OUR COMPUTER.



For the advertising impaired, this is a picture of a piece of cake. And "a piece of cake" is an expression that means very easy. Now, we're sorry that we're being so simplistic about this, but we're just trying to dramatize how very easy it is to upgrade our personal computer. Why even the person who wrote this ad could do it.

In fact, the most difficult part may be describing how easy it is. But let's try. First you unplug the processor cartridge. The one marked i386™SX, let's say. Then you plug in a new processor cartridge. The one marked i486™SX, let's say. There now, that wasn't so bad was it?

Want to try it again? Unplug the 486SX, and plug in a i486™ cartridge. Or a year or so when they come up with the next generation of processor technology, you can unplug your present cartridge and plug in that one.

Of course, the upgrading doesn't stop there. You can add more storage by swaping out the the hard drive module. And switching from 40MB to 110, 200, or 400MB drives is as easy as pie.

Tandon reserves the right to amend specifications and prices without notice. Tandon Option, Tandon 486, Tandon 386, SL 386sx, SL486, LT/386sx/N, 286/N, Tandon Tower 486, Power Poster, Multi-Cache and MMAT are trademarks of Tandon Corporation. Intel is a registered trademark of

Then you can upgrade monitors, add a modem, switch printers, and things like that, with easy access ports that make it simple as say, riding a bicycle.

Well, you get the idea. The Option from Tandon is a very easy machine to upgrade. Which said a slightly different way, means you don't have to get rid of your old computer every time you want the latest technology.

Of course, to make your life even simpler we offer things like a 24-hour information hotline, to help you with any request you might ever have, a one year limited warranty written in simple English, even a 30 day no questions asked return policy, should you for any reason not find life with your Tandon Option simple enough.

Any questions? Call ***1-800-800-8850.*** And you'll reach an actual person you can talk to. We think you can take it from there.

intel inside

OPTION
Tandon

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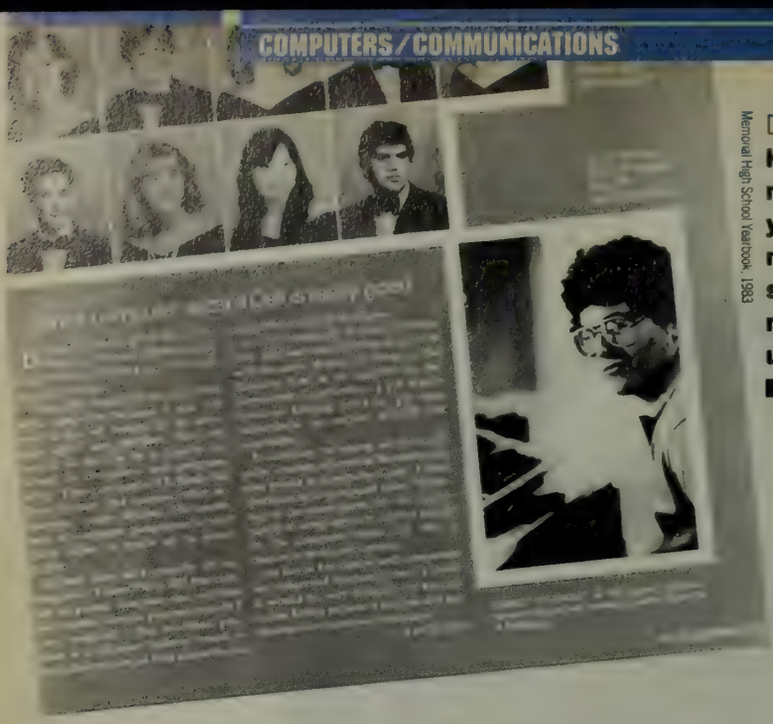

Memorial High School Yearbook, 1983

Dell at age 18
He was already making $18,000 a year hawking newspaper subscriptions to newlyweds by using a computer.

Where are your schoolbooks, son, the parents wanted to know. He hadn't bothered to buy any. Dell and his parents came to an agreement: If Dell finished all his spring courses, he could run his business in the summer. If the business didn't fly, he'd have to return to school in the fall.

Dell started his new business as PC's Ltd., leasing 1,000 square feet of cheap office space in Austin, advertising in newspapers and computer trade magazines, and he was selling $180,000 worth of computers a month by September.

Nice, but the margins were thin. Dell could do much better if he could manufacture his own machines. "It became very obvious," he says. "If we could design our own computers, and sell them directly to the customer with better support than the dealers offered, we would have an incredible business."

He hired a small team of engineers to design his own IBM clone, moved into a larger space and hired workers to assemble the clones. His telemarketers were soon offering machines for as little as $795, about 40% less than what IBM charged. In fiscal 1986, his first year selling Dell-designed PCs by mail, revenues quintupled, to $34 million.

You may wonder how a 21-year-old could run a $34 million business. He couldn't. Dell got help. E. Lee Walker, now 50, an Austin venture capitalist who had been involved in numerous startups, came on board in early 1986 as a consultant, later becoming president and chief operating officer. "Lee helped me get around the potholes," says Dell. "Sometimes he was my father, sometimes he was my brother. We were very, very close."

Walker helped Dell plan ahead. That meant raising working capital. Just one week after the Oct. 19, 1987 stock market crash, Goldman, Sachs raised $21.5 million for Dell Computer in a private placement. The following June, Dell went public, selling 3.5 million shares of new stock for $30 million. Dell still owned 80% of the stock, but the company had the money it needed to capitalize on its initial success.

With cash in hand, Dell moved beyond mail-order selling into selling machines to corporations. A small direct-sales team was assembled in 1988, but it was no lavish operation. The salespeople were told to do most of their business via telephone. Cracking corporate business turned out to be tougher than Dell expected. Anticipating big orders from corporations for his machines, Dell loaded up on DRAM chips. When the sales didn't come through as fast as hoped and chip prices subsequently fell 70%, inventories ballooned to $104 million. Dell tried to work through the inventory instead of taking a charge against earnings, but he wasn't able to recoup the cost. That made for a bad year, with earnings plunging from $14.4 million in fiscal 1989 to $5.1 million in fiscal 1990.

That taught Dell the importance of inventory control. He enlisted the help of recent hires Glenn Henry, head of manufacturing and R&D, and James Daniel, chief financial officer, to keep a tighter rein. "I'm guilty of doing too much, and I'm guilty of not seeing mistakes coming," says Dell. "What I'm not guilty of is making the same mistake twice."

In the end, the corporate venture paid off. Today nearly half of Dell's sales are generated by major corporate, government and educational accounts, including the Resolution Trust Corp., the World Bank and MCI.

Skeptics said Europeans would never buy computers by mail. Again Dell proved the skeptics wrong. Last year international sales were 34% of Dell's business. Dell Computer now has subsidiaries in ten countries and last April began shipping from a new assembly plant in Limerick, Ireland.

Last year E. Lee Walker had to resign because of a painful back ailment. Dell recently hired Morton Meyerson as an adviser. Meyerson is former president of Electronic Data Systems, H. Ross Perot's old systems-integration company now owned by General Motors.

What now? Dell knows that if he stands still, a low-overhead upstart can take business from him just as he took business from IBM and Compaq. So he is pushing Dell Computer to add more value to the basic machines it sells. Dell salespeople, for example, now sell computer systems tailored to a customer's needs by adding software programs from Lotus, Microsoft, Mead Data Central and other suppliers. "We want to be suppliers of entire systems," Dell says.

At the same time he is moving to broaden his distribution by selling in stores. With computer superstores thriving, Dell last year inked a deal with Dallas-based CompUSA (formerly Soft Warehouse), and last August with the well-known office equipment chain, Staples, Inc. The goal is to sell Dell computers in these stores at prices not much higher than mail-order customers pay.

Can Dell Computer keep its position as a low-cost manufacturer and distributor in this more complex side of the business? That's the next big test Michael Dell faces. Regardless, he has already made quite a mark for himself in the history of the computer business.

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During a summer job someone asked John Moores if he wanted to be a computer programmer. "I said, 'What's a programmer?' " recalls Moores. The rest is wealth-creating history.

"I'm still floored"

By William P. Barrett

IT IS A sunny August morning in the trendy mountain town of Santa Fe, N.M. John Moores is spending a few days doing some serious pottery buying around the time of the famous Indian Market weekend.

Several weeks earlier—"I can't remember when exactly," Moores says, laughing—he actually worked part of a day in his office at BMC Software (estimated fiscal 1992 revenues, $180 million), the Houston-area computer company he founded in 1980 and where he now serves as chairman. "I guess I only work about half the time now," says the 47-year-old Moores. "I've been phasing out for a few years."

BMC Software is doing extremely well. So is Moores. With the stock (traded over-the-counter) at a recent price of 50¼, his controlling 29% is worth more than $360 million. That doesn't include the proceeds of an estimated $95 million or so worth of shares that he and his family have sold since 1988.

"I never envisioned anything like this," says the soft-spoken Moores, a shy smile spreading beneath his owlish glasses. "I mean, I knew I was onto something. But I'm still floored."

What he was onto was a niche in the computer business: software that helped IBM mainframe computers work better, faster and, ultimately, longer. "IBM is so big that it can't do everything exactly right," Moores says. "We exploit the inefficiencies."

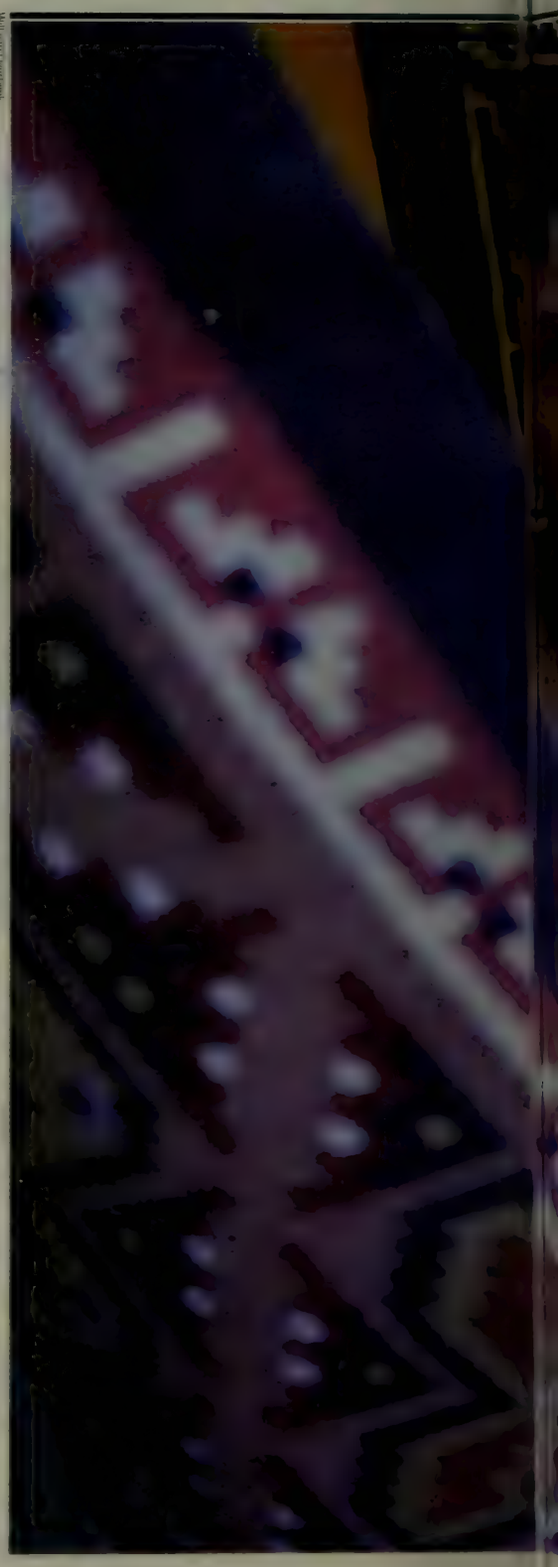
Moores was no boy computer genius. He spent a "normal" middle-class childhood, as he puts it, mostly around Houston. Moores' inspiration was his father, C.W. Moores Jr., a newspaper photographer turned publicist who sidelined at night as a jazz musician. Says Moores of his father, who died last month, "He was the hardest-working person I have ever known."

After he married his high school sweetheart, Rebecca Baas, at age 19, Moores and his bride attended the hometown University of Houston. He majored in economics. It was while in college in 1963, during a summer job his father helped him to get at Great Southern Life Insurance Co., that Moores first encountered the technological future. "Someone asked me if I wanted to be a computer programmer," Moores says. "I said, 'What's a programmer?' "

But he learned fast, and found he liked this new field. That led to a job with IBM at various places around the country. Returning to Houston in 1968, he eventually left IBM for a programming job at Shell Oil Co. that involved less travel and allowed him and his wife to raise two kids while taking law courses at the University of Houston. "I learned I didn't want to be a lawyer," he says. Still, he and his wife were admitted to the Texas bar.

Moores' great moment of inspiration came while he was working with a giant mainframe at Shell. "It always took so long for the computer to respond to a command," Moores recalls. "I figured there had to be a better way." Working largely on his own time, Moores wrote a program called Optimizer that speeded up response time. He gave it to Shell Oil royalty free but hired a marketing company to sell it nationally. He actually made some money.

In 1978, entrepreneurial urges by now tugging at him, Moores quit Shell. "I was kind of faceless in the group," he says. "And I don't like large organizations." At first, Moores worked on his own as a consultant to



William Christiansen

John Moores with
a Santa Fe weaver
"I guess I only work about half the time now. I've been phasing out for a few years."

help program Superior Oil Co.'s computers. A few months later he formed an unincorporated partnership called BMC with two other programmers, Scott Boulette and Daniel Cloer—the B and C of BMC.

Initially, they programmed computers for big companies while running an employment agency for out-of-work programmers. "I thought there might be some synergy," Moores says now. But there wasn't, and the partnership foundered.

As it was breaking up, Moores incorporated BMC Software in 1980, with himself as its sole owner. His focus would be software. His wife drew up the papers, which put the initial capitalization at $1,000. "That's the minimum amount you needed in Texas for a corporation," Moores says. "We actually started it with nothing." But he had some software programs in the works, and first-year revenues topped $1 million.

With Boulette and Cloer out of the picture, Moores recruited a high school friend, Richard Hosley, to market the software to other companies. BMC Software ran into problems by trying to develop too many products. As time went on, Moores and his team focused their efforts on, as he puts it, "only those programs that could make us money." The company attracted top-notch software writers by paying larger-than-normal royalties. To find the funds for this, BMC Software started peddling these high-end programs over the telephone rather than in person. Telemarketing $50,000 programs isn't easy. But BMC Software concentrated on products that could be pitched in a snappy two-minute spiel, "easy to understand," Moores says.

His company was in a highly competitive business, but its unusual compensation and telemarketing techniques seemed to give it an edge. In August 1986 Moores gave the firm's 100 employees a block of stock in the still private company. "It was a tremendous godsend," he says of the stock award. "It got people to focus on the bottom line."

Moores and his employees finally hit it big in August 1988, when BMC Software went public. Suddenly, Moores and family were worth $70 million on paper, plus the net from around $18 million already sold in private transactions or in the public offering. Today the stock he gave BMC's employees is worth $150 million—an average $1.5 million per worker.

Moores at rest
"I never envisioned anything like this."

Willy van Overbeek

It was when the public offering was being prepared that Moores decided to wind himself down. "My ego didn't require that I be CEO of a public company," he says. "I never wanted to stand up and talk at 25 analysts' meetings. I thought somebody else could do it a lot better."

In the near future Moores expects to step down as BMC's $250,000-a-year chairman, too, the better to spend more time at his homes in Colorado, California and Texas, and with his collection of jazzy cars ("I never pay more than $100,000").

Hanging over this otherwise inspiring tale is a cloud—though a small one. In a bitter lawsuit filed five years ago and still pending, Moores was accused of using his legal education to take advantage of ex-partners Cloer and Boulette and an early programmer, Richard Barry. According to court papers and depositions, Moores orally promised them big royalties or equity interests. But little was put into writing and, the plaintiffs charge, agreements were broken.

The lawsuit said Moores committed legal malpractice by doing personal legal work for the individuals but not protecting their interests by drafting written agreements. The plaintiffs contend Moores discouraged them from seeking outside counsel by saying he considered such a request an attack on his character.

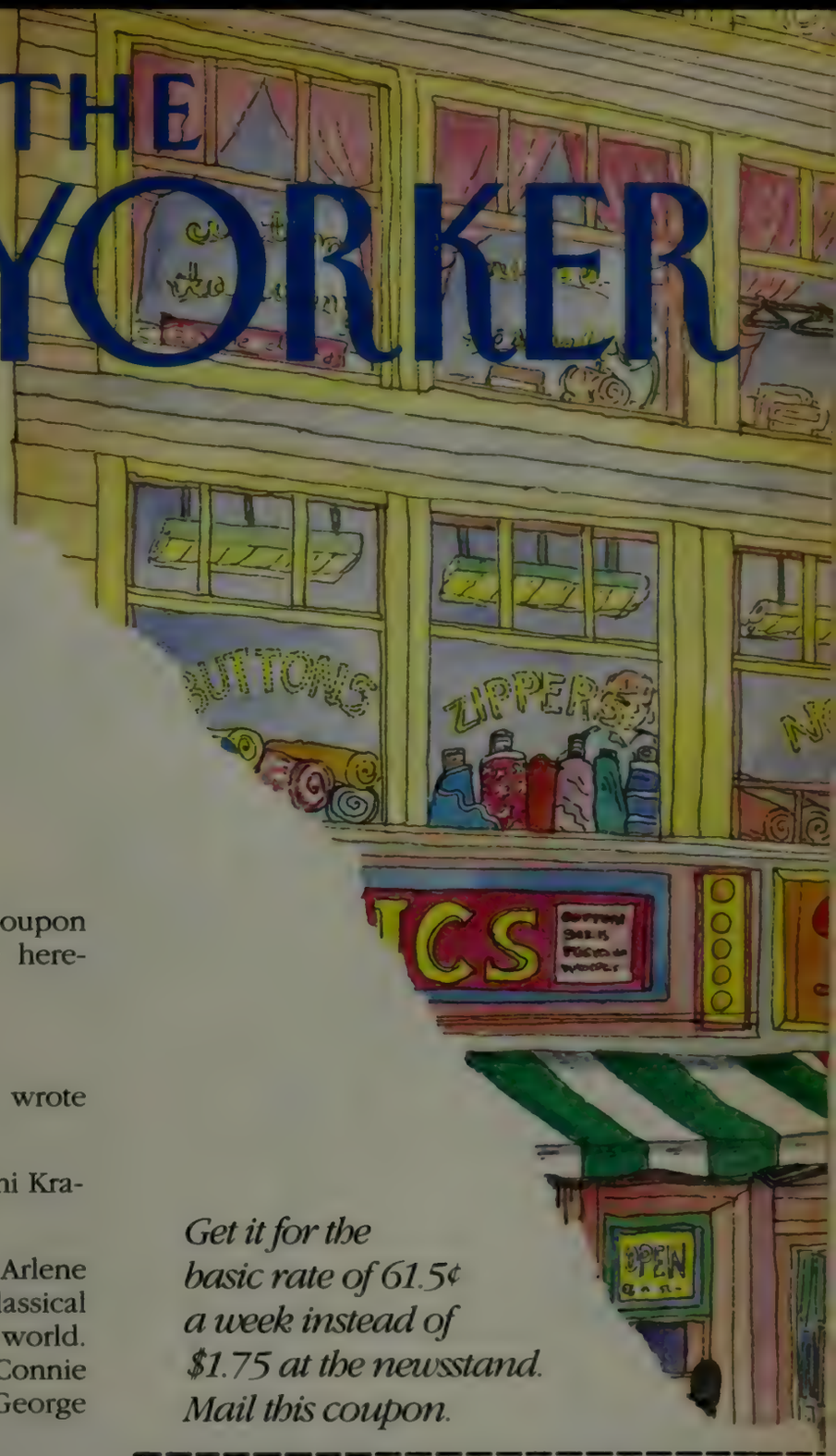
Last year Boulette and Cloer settled out of court, receiving a joint payment estimated at less than $500,000. But Barry's suit continues. Also still suing are the now divorced spouses of two company employees. They claim that Moores plotted with their former spouses to cut down divorce settlements by falsely labeling their compensation as salary and discretionary bonus (none of which, under Texas law, goes to a divorcing spouse) instead of as royalty, half of which does go to the spouse.

Moores denies the allegations, especially those touching on promises and the quality of his legal advice. But he acknowledges that the paperwork during the early days was minimal. "Things were hectic," he says.

In any event, since he became rich, Moores has gone out of his way to become charitable. He and his wife have donated more than $15 million to their alma mater, the University of Houston. They've also given more than $10 million to start the River Blindness Foundation, dedicated to fighting a waterborne sight-depriving illness found in Africa and South America. Moores heard about the malady from his brother, an optometrist. "A simple pill will prevent it," he says. "The hard part is getting the pill over to these places." So the foundation concentrates on the logistics of arranging shipments.

Enjoying his good fortune, Moores says he has no urge to try to start another business. Explains Moores as he gets up to go for another Indian Market pottery shopping session in Santa Fe: "I'm having fun." ■

THE NEW YORKER



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"Too flashy ain't flashy enough" was the watchword of the limousine business in the 1980s. Limos are still being made, of course, but in smaller quantities and smaller sizes.

Where did all the hot tubs go?

By Jerry Flint

Reuters/Bettmann

The 1980s: no understated elegance
Cost, including the hot tub, $1 million.

DUKE RUDMAN, a Texas wildcatter FORBES estimates is worth about $200 million (FORBES, *Sept. 2*), is the exception. He is into limousines the way rich people are widely assumed to be. "I got three on my hands right now," he brags. There's the Lincoln Town Car and the vintage Rolls (worth maybe $1 million, he says, but it's always laid up). But Rudman's newest is the mother of all limos: a Mercedes 560, sticker price around $80,000, that is being stretched and widened and outfitted with a fold-out bed. "She'll cost about $140,000," he says, after all the modifications are completed on the new Benz.

"On a scale of 1 to 10 in difficulty, Duke's Mercedes is a 15," says Rick Fugitt, president of Corporate Coachworks in Springfield, Mo., who's doing the conversion work. "There's nothing like this in the world."

Sadly, Coachworks' Fugitt adds: "This will be one of the last of the handcrafted superluxury vehicles built in this country."

Big-time limo spenders like Rudman are a dying breed. Show is out these days and low-profile functionality is in. In 1987-88 the production of limousines peaked at between 4,000 and 5,000 a year. This year fewer than 1,500 will be made. The converters—who take the basic Lincolns or Cadillacs or Mercedes, cut them in half, add sections in the middle (the "stretch") and customize the interiors of the limousines—are vanishing.

"Twenty-four months ago there were 50 coach builders," says Matthew Baines, president of Limousine Werks of Schaumburg, Ill. "Today there are maybe 10, with 3 or 4 of us controlling 65% of the business."

Like real estate developers reminiscing about the glory days of building downtown Houston or Denver, limo converters talk wistfully of the 1980s. Recalls Baines: "The limousine took off in 1984. Those were the days of *Dallas* and *Dynasty*—wild! We'd build gee-whiz bars, U-shaped lounge areas."

Sighs Larry Ulmer, general sales manager of Federal Coach in Fort Smith, Ark.: "From 1984 to 1987, the limos were color-keyed to your Learjet."

"We had amenities like hot tubs and fold-out beds," says Gary Forbis, president of National Coach Engineers at Port Sanilac, Mich. But today, says Forbis, "everything is condensed." Even with most of his competitors gone, his order backlog is only about four weeks, less than half that of a few years ago.

The cars he's converting today have less stretch, too. Instead of 80-inch stretches, today's limos usually expand a mere 8 inches to 28 inches. That's enough to make a difference to passengers (think of the legroom difference a few inches make between economy and first class in airline seats), but it's hardly noticeable from the outside—which is precisely the point. The modified stretch is even less noticeable in dark-colored cars—which most of the new limos are.

On the inside, serious working tools have replaced showy bars and lounges. Today's limo comes with cellular phones, faxes, computers, a desk or

Inset/Lance

The 1990s: a slight stretch, but ever so discreet
Darker, fewer, cheaper—about $60,000.

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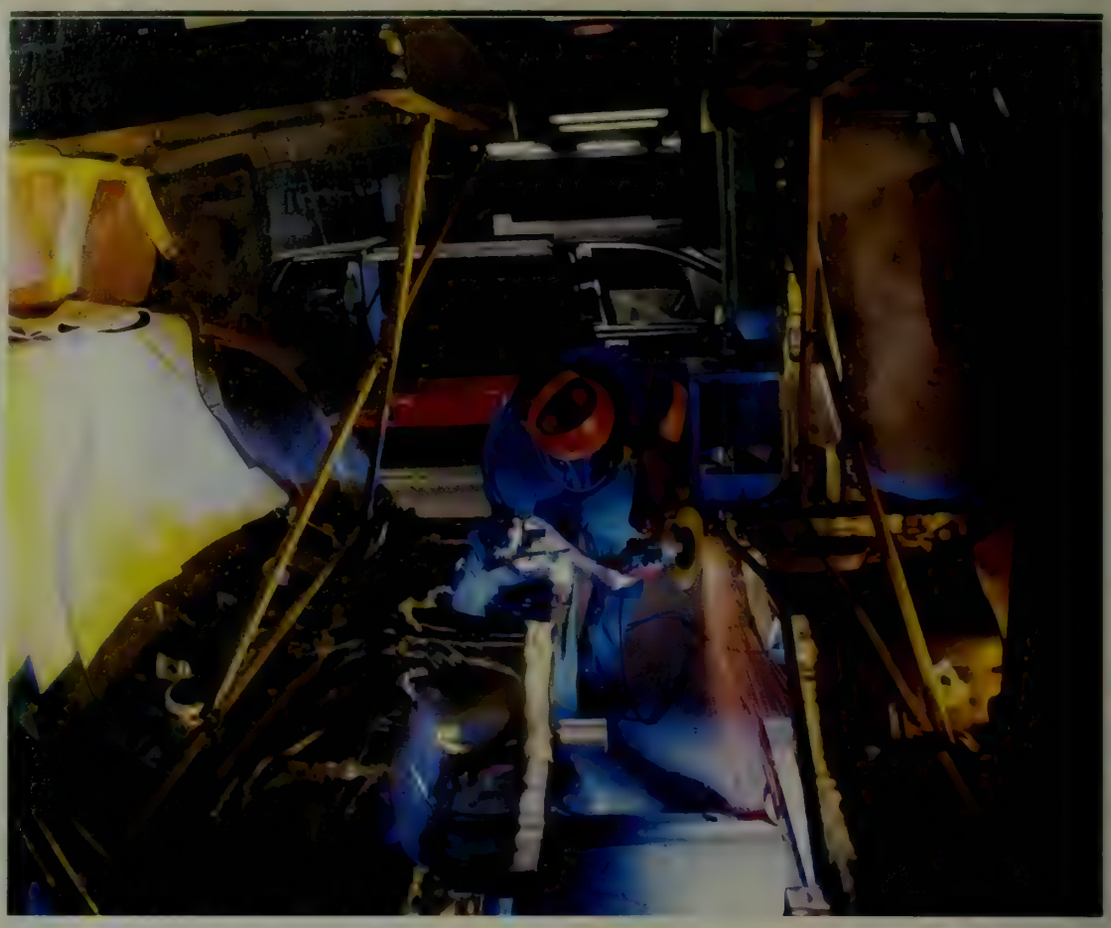
writing table, reading lamp, dictation equipment. Oh, maybe a TV-VCR and a discreet bar—well stocked with mineral water.

The typical limo price? Mid- to high $50s for a Lincoln or Cadillac, not including Congress' new 10% luxury tax, which applies to any car costing over $30,000.

There are even economy limos, if that's not an oxymoron. Limousine Werks' Baines is building a handsome new limo from the standard Buick Roadmaster. The basic Roadmaster costs around $24,000, some $8,000 less than a Cadillac or Lincoln. After Baines stretches the Roadmaster 60 inches and adds six-passenger seating and such gadgets as TV, intercom and vanity mirrors, he sells it for $49,000, around $10,000 less than a similarly converted Caddy or Town Car.



Thomas Gilmartin

Putting in the "stretch" at Limousine Werks, Schaumburg, Ill.

Total limo sales are down from 5,000 a year in 1987-88 to 1,500 today.

Are the old pleasure palaces on wheels gone completely? Fantasy dies hard in California, where a few grandiose 85-inch to 110-inch stretch limos with, say, circular seating and dual moon roofs are still being built, sometimes by outlaw converters who choose to ignore new government regulations on such cars.

"Ostentation doesn't mean anything in California," says Vince Wolfington, chief executive of Washington, D.C.-based Carey International, probably the largest limo provider in the world.

But most of Wolfington's business comes from renting, not selling, his limos. "The guy who makes $100,000 can rent a Town Car limousine for four hours and it costs less than it costs to rent a car [for a day]," he says. Well, almost. His rates in New York run from $45 to $55 an hour, depending on vehicle size, chauffeur included. And you don't have to park a limo.

Barry (Ultra) Smith, an auto interior specialist in Manhattan, stands ready to do custom woodworking, add lots of leatherwork and do heavy interior redesign in cars for "people who go to a fine designer for their homes." Says Smith, who has thought quite a bit about the limousine business: "There are two types of cars for the Nineties: the CEO type and the EGO type."

A CEO-type limo, he explains, "may have up to four telephones, tooled-leather trim, fax lines, but discreet." The chief executive will sit facing forward. There could be U-shaped seating for aides, possibly a center island with a pull-out writing desk. There might even be a built-in paper shredder.

"People love moving things with a button—a panel opens up to reveal a TV, it swivels and there's a bar," says Smith. His CEO-type customer would pay up to $20,000 for such embellishments in a limousine.

What about the EGO-type car customer? For him, says Smith, "we may have mood lighting; a 500-watt, 10-speaker audio-video system; blue lights to create a glow; a mouton rug; seats trimmed in ostrich." Ostrich? "If you have ostrich shoes, it's quite an effect." Smith's bill could run as high as $45,000.

Both CEO and EGO cars would probably sport some James Bond-type security options, like the hidden spotlight that can be aimed into the eyes of a trailing driver. (Cost for the option: over $2,500.)

While there will always be a handful of customers for such vehicles, the limousine-conversion business is falling victim not only to the current austerity fad, but also to something plenty of people of means have always considered: the tyranny of some luxury possessions. For instance, Minneapolis billionaire Curtis Carlson, who's in the hotel, restaurant, travel and sales promotion businesses, says he can't imagine why anyone would ever consider buying a chauffeured limousine.

"I've got less stress if I don't pay a guy who's sitting waiting for me," says the 77-year-old Carlson. "I just get in my Cadillac. I'm 13 minutes from my office. I push this button that opens the garage door. I park by the office. Why do I need a driver?"

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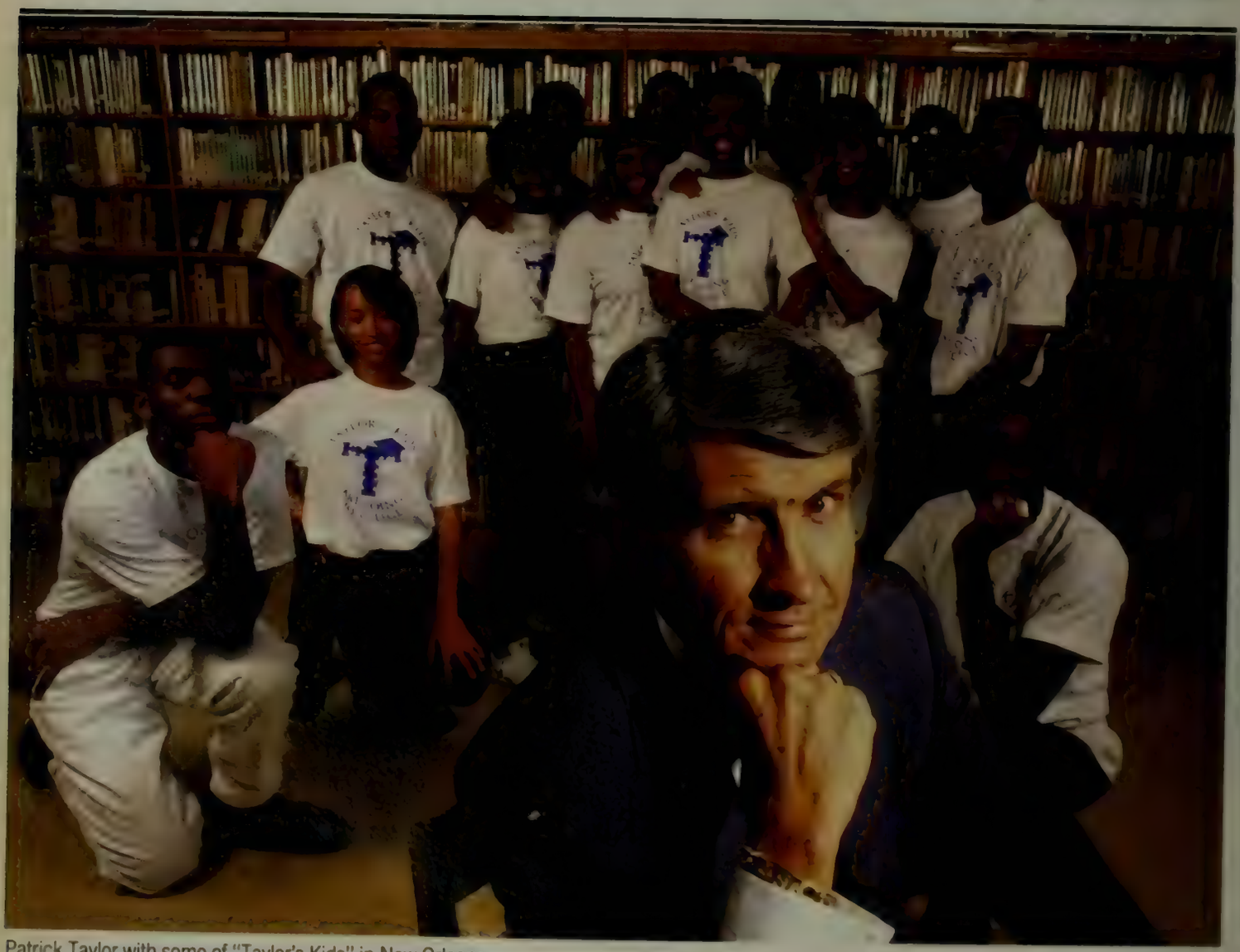
More and more of America's wealthiest individuals are addressing their money and time to the problem of educating the inner cities' poorest kids.

Raising the levels of hope and expectations

By Sandy Sheehy

SELF-MADE Patrick Taylor, 54, is one of Louisiana's toughest and richest oilmen. His tie, his suspenders and his oversize diamond cuff links all sport his company motif—a knobby T-shaped well fitting known to drillers as a Christmas tree. His wholly owned Taylor Energy is one of the fastest-growing independent oil producers in the country, with 14 offshore rigs in the Gulf of Mexico. FORBES estimates Taylor's worth at $185 million, and regards him as a future contender for The Forbes Four Hundred.

But Taylor is also a committed philanthropist specializing in the education of poor kids. Like many successful Americans, Taylor credits what he has done with his life to education. He had to work hard for his. In 1955 he hitchhiked to Baton Rouge with $55 in his pocket to get into then-tuition-free Louisiana State



Patrick Taylor with some of "Taylor's Kids" in New Orleans
"Indirect lighting never had an impact on learning."

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University, where he earned a degree in petroleum engineering.

"I *wanted* that college education," he says. "I was qualified, and they didn't turn me away."

Like a lot of bootstrap millionaires, Taylor once thought that if he could make it himself, anyone could. He changed his mind three years ago after speaking to a class of 183 "problem" eighth-graders at a middle school in a New Orleans neighborhood plagued by drugs and crime.

Taylor was struck by their predicament. Their teachers seemed capable and committed and the kids bright enough. But suppose they did graduate from high school. What then? Louisiana's state universities were no longer free. The simple economic fact was, these kids probably wouldn't be able to afford college. And they knew it. Taylor figured they didn't need new curriculums, new teachers, new physical plant. "Indirect lighting never had an impact on learning," says Taylor. What they needed was an incentive.

Taylor decided the best incentive was an open door to college. So he decided to provide college tuition, books, living expenses and $1,000 a year "walking-around money" to any of those 183 seventh- and eighth-graders who graduated from high school with a B or better grade average and wanted to go on to college. His adopted class called themselves Taylor's Kids and received T shirts emblazoned with his trademark T-shaped well fitting with a mortarboard hung off one arm. Twenty-six of that original class are high school seniors, on track to go to college.

A year later, Taylor launched his New Orleans project. Together with 17 other businessmen, he pledged a $1,000 annual stipend to any New Orleans high school student entering college from a family living below the poverty level (in this case, $13,000 a year). The cost? One million dollars, but only part of it came from Taylor.

Al Seib/Los Angeles Times

Winifred Rhodes-Bea (left) and Eugene Lang, "I Have a Dream" sponsors

She leveraged family money and social connections to help further his idea.

"I probably had the million dollars," he says. "But I wanted the students to know that the money was coming from the community's corporate leaders. I wanted it to say, 'We believe in you. We're willing to invest in you. Because we want to hire you.' " So he raised the money for Project New Orleans from chief executives around the city; he gives a list of their names and their college degrees and majors to every student receiving a grant. To date, over 400 New Orleans students have received support from Taylor's various initiatives. "We've laid out a pathway to success for people," he says.

Now he's going further still. Using political as well as personal capital, Taylor has traveled 250,000 miles in the last two years, proselytizing for the Taylor Plan—free state college tuition for kids with satisfactory achievement test scores, a 2.5 grade-point average in a good curriculum, and a family income below $25,000. Already he's persuaded legislatures in Louisiana, Texas, New Mexico, Indiana, Arkansas, Florida, Oklahoma and Maryland to sign on. Now he's after the other 42 states, and an endorsement from his friend George Bush.

Taylor, who spends around 80% of his time on opening college doors for poor but motivated kids, believes that if children enter kindergarten knowing they can go on to college, many will apply themselves all along the way. On the other hand, if they think high school's a dead end, then schoolwork will look less attractive than drugs, alcohol, gangs and irresponsible sex. "If you want them to go somewhere," says Taylor, "the most important thing you can do is to open the gate at the other end."

Taylor doesn't claim his idea is original. Ten years ago New York lawyer and businessman Eugene Lang promised a sixth-grade class at his old East Harlem elementary school, P.S. 121, that he'd pay tuition for any of them who made it into college. This year, that original class of 61 produced its first two college graduates and 33 others entered college, while 45 of them—75%—have earned high school diplomas. That compares with a 75% dropout rate for the average sixth-grade class at that school.

Lang's "I Have a Dream Foundation" has encouraged other individuals to adopt classes. The requirement: a minimum commitment of $350,000 and six years of personal involvement with the kids and their school. I Have a Dream now reaches 10,000 kids in 43 cities.

Mrs. Winifred Rhodes-Bea, an heiress to California's Whittier family oil fortune, set up an I Have a Dream program in Los Angeles in 1987. She sponsored 51 students herself and persuaded other members of the

They're regular passengers on overseas flights to Hong Kong, Bangkok, and Tai Pei. Are frequently en route to the shores of Lake Ontario to return an historic summer resort to its 1920's grandeur. Have been left under the desk during countless lunchtime runs. But underneath it all, they'd rather be sailing.

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Whittier family, and the family foundations, to sponsor 205 others. Then she exercised her social leverage and brought in more rich southern Californians. She can now take credit for nearly 800 children in I Have a Dream classes—children from schools with the lowest reading and math scores in the city.

One flaw she has noticed: The sixth grade is too late to begin. "If they haven't started reading by the end of the second grade, these kids drop out," Rhodes Bea says. "Not literally right then, but the information stops coming in." She wants to begin at kindergarten.

She's also trying an experiment: sending nine low-income boys to Verbum Dei, a Catholic school in Watts. "I cannot tell you," Mrs. Rhodes-Bea says, "how much I think of Catholic education."

Others, too, think discipline, individual attention and emphasis on basic academic skills make Catholic schools a good choice for educating poor kids from broken families and violent neighborhoods. A definitive study published by University of Chicago sociologist James Coleman in 1987 (*Public and Private Schools: The Impact of Communities,* Basic Books) showed that kids from similar disadvantaged backgrounds did far better—in terms of both test scores and dropout rates—if they went to parochial schools than if they went to public schools or even nonparochial private schools.

"A lot of it was due to the demands made on students," says Coleman. "Instead of taking business math, they take geometry and algebra. This runs counter to the idea that demands are inimical to students' welfare."

Yet in most older American cities, enrollments at the inner-city Catholic schools have been falling as the Irish, Italian, Polish and other ethnic families the schools have traditionally served have moved to the suburbs. There is plenty of room in them for poor but deserving kids.

No one has done more to put Catholic schools together with disadvantaged students than New York's Peter Flanigan, managing director of investment bankers Dillon, Read. Flanigan, whose father was chairman of Manufacturers Trust Co., received his own Catholic education at the posh Portsmouth Abbey school in Rhode Island. His was a privileged background—but, "not so far from a grandfather who arrived barefoot from Ireland not to know that education is the only way out of poverty."

Flanigan saw that New York's archdiocese was closing inner-city schools for lack of money and students. So he started his Student/Sponsor Partnership. Under it, sponsors, mostly young professionals and business people in their late twenties to early forties, commit themselves to sending poor black and Hispanic kids through four years of high school at 17 New York religious schools (16 Catholic, one Lutheran). Average cost: $2,300 a year, which is what it costs the no-frills Catholic schools to educate a child, payable in full or in part by the sponsor. Equally important, the sponsors are expected to give time as well as money, calling the student every month and visiting with him or her at least four times a year.

Most of the Student/Sponsor Partnership program's 600 sponsors aren't Catholic themselves, but they believe in the schools' effectiveness with kids from chaotic backgrounds. The results confirm their beliefs. About 75% of the 104 kids who have gone through the program graduated from high school; 91% of those went on to college. "Good colleges will *reach* for these kids," says Flanigan, "provided they get the basic skills they need in high school."

Most people trying to do something about educating the poor agree that personal involvement with the kids makes a huge difference—it connects students to a more successful world and opens their horizons.

Atlanta's Guy Millner understands this. His father owned and ran a gas station in an affluent part of Daytona, Fla. Millner says he was inspired by the success of his classmates' parents who were lawyers, doctors and wealthy business people. He worked his way through college in the Fifties, and went on to establish the Norrell Corp., a temporary personnel agency that has grown to offices in 41 states and $450 million in revenues.

Millner believes that public schools can still educate, but that the students have to be motivated. His involvement with education started in 1988, when he agreed to put his company in the Atlanta area's Adopt-A-School Program. The idea was that local businesses would donate computers and other equipment to their adopted schools, and lend employees to counsel kids on career days. But when Millner went to Cedar Groves High School in a minority Atlanta neighborhood, he, too, saw the students needed to feel they could break out of poverty. So Millner pledged $50,000 of his own money to send any kid graduating from the Cedar Grove classes of 1992, 1993 or 1994 with a 2.7 grade point average to either nearby DeKalb College or Georgia State University. As in Flanigan's and Lang's programs, he makes sure he and his employees visit the school frequently. He enlists peer pressure by printing up special "Top 40" T shirts and throwing a dinner for the best students in the class and their parents.

In just three years, Millner says, he has seen some startling results. SAT scores at Cedar Grove are up 100 points. Millner's explanation: Now that the kids know they can get a college education if they work for it, they're doing the work they need to do to get ready.

"We have raised the level of hope," says Millner, "and that has raised [the students'] level of expectations." And hope is what it is all about. ■

Getting involved

Interested in finding out more about the innovative education programs discussed in this article? Here are their addresses and phone numbers:

I Have A Dream Foundation
330 Seventh Ave., 20th floor
New York, N.Y. 10001
212-736-1730

Student/Sponsor Partnership, Inc.
24 E. 38th St.
New York, N.Y. 10016
212-545-0341

The Patrick F. Taylor Foundation
P.O. Box 53009
New Orleans, La. 70153-3009
504-593-8400

Most large cities have Adopt-A-School Programs, now usually called Business/Education Partnerships. Any in your area can be contacted through your school district.

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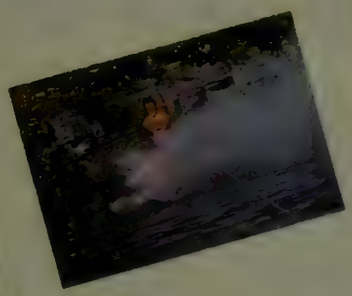

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The richest man in Poland

HOW CAPITALISTIC is Poland? Judging by its equivalent of The Forbes Four Hundred, published by a weekly called *Wprost* ("Direct"), not very. Of the 100 Polish tycoons in *Wprost*, the 2 richest aren't even in Poland. One is Johnson & Johnson heiress Barbara Piasecka Johnson *(which see)*, lately of Princeton, N.J. The other is a Paris, France-based tennis player turned art collector named Wojciech Fibak; the paper pegs his net worth at about $50 million.

Number three is the genuine article: Warsaw-based entrepreneur Piotr Büchner, 48. He owns a dozen firms, which make textiles, plastics, drugs, cosmetics and packaging and employ 2,000 Poles. But he says that most of his income now is from consulting for foreign companies wanting to do business in Poland. *Wprost* won't put a number on his net worth. Büchner, who spoke with FORBES by phone while vacationing in the south of France, says only that he makes "several million dollars a year."

Büchner followed his father from Poland to Switzerland in the early 1960s, studied chemistry and became a consultant to drug manufacturers. When the floundering communist government relaxed business regulations in a vain attempt to rescue the economy in the late 1970s, Büchner moved back to do business.

In the early days, he says, he could hire Poles for an average $50 a month to make apparel and packaging salable in the West. But today wages and most other prices have been decontrolled and Büchner's costs have run up drastically. Margins at his factories have been squeezed to a skimpy 5% from 30% a decade ago. But he's not complaining.

One of Poland's lingering problems (and it is a problem not unique to Poland) is envy and dislike of those Poles who are starting businesses and making money. After the *Wprost* 100 came out, the paper published a letter to the editor that read, in part: "Why are you writing about the rich at all if we are all so poor?"

Sighs Büchner: "Rich people like me are not loved." It will take time before some Poles figure out that Poland already knows how to be poor. The trick now is to learn how to become rich. –KATARZYNA WANDYCZ

Magnum force

MARCHESA KATRIN THEODOLI builds her Magnum brand boats, one of the boating world's ultimate status symbols, in Miami but sells nearly all of them in Europe—where they cost some 15% more because of delivery costs and taxes.

Magnums combine the speed of an offshore racing boat and the comfort and stability of a good-size yacht. They can cruise at over 50mph; the superpowered 90-footer can reach an astounding 90mph. They are a hot item among superrich Europeans—the Agnelli family and the King of Sweden are among Theodoli's happy customers.

The line is priced from $60,000 for the low-budget 27-footer up to $4.5

Catherine Gabriel/LMR

Piotr and Iwona Büchner on vacation in southern France

Labor costs are up, says Poland's richest man, but he's not complaining.

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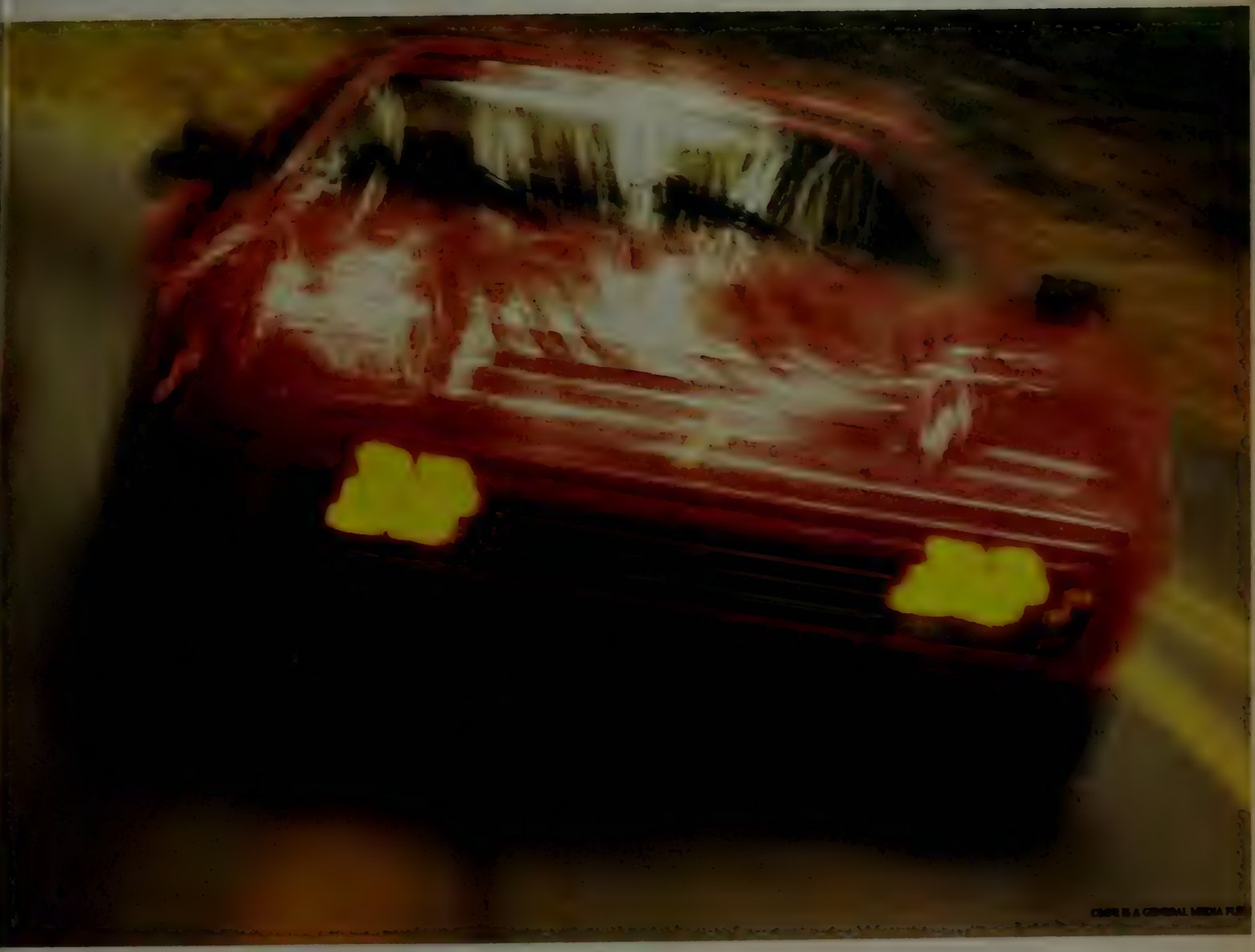

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* Fall 1990 MRI Study

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million for the 90-foot Pininfarina-designed "Europa."

Originally conceived by Donald Aronow, who also developed the Donzi and Cigarette boats, Magnums are perfect for lunching at St. Tropez and then making Portofino in three hours, well before dinner.

The Marchesa and her late husband, Filippo, were the exclusive distributors for Magnum in Europe. They bought Magnum Marine in 1976 for roughly $1.5 million, when the previous owners didn't want to build larger boats. This year Theodoli, who says she's "fortyish," should sell between 15 and 20 boats, for around $15 million.

While the Marchesa has sold boats to Nelson Peltz *(which see)* and former tycoon William Farley, she doesn't do nearly as well among Americans as Europeans. Why not? Americans don't do as much offshore cruising as Europeans. Moreover, Magnums are status symbols—something many rich Americans are less interested in these days, when people seem to be down on the rich.

–KATHERINE WEISMAN

Simeone Ricci

Katrin Theodoli
Her ultimate status symbols are made in Miami but sell in Europe.

Ray Ng

Charles Israel
Banker to the Aspenites.

Banker to the moguls

WHAT DO Rupert Murdoch, Leonard Lauder, Sol Price and 76 other members of The Forbes Four Hundred have in common? A banker by the name of Charles Israel, who runs tiny Pitkin County Bank (assets, $90 million) and owns 5.3% of its stock.

The bank is in Aspen, Colo. The resort has other banks, but the really big money seems to like Charles Israel and Pitkin County Bank. A hail-fellow-well-met type, Israel, 59, often turns up at the parties thrown by his big depositors, the better to meet and win over new customers. Once he gets their deposits, he works hard to keep them. For example, if you open a $50,000 Pitkin money market account, you can join Pitkin's 534 Club. Israel describes it as a concierge service for the rich—534 Club employees will make hotel or restaurant reservations, or even take your car to the mechanic.

Born in New York, Israel started his career in Macy's management program. He eventually started his own clothing business with his brother, which they sold for $10 million in 1972, then settled in Aspen to enjoy the good life. He occupied himself making second-mortgage loans to locals and eventually invested some $500,000 in what was then Aspen Bankshares, an unprofitable local bank. In an attempt to save the bank and his investment, he convinced some other investors to buy it, and soon found himself the bank's new chief executive.

What did he know about banking? Not much, but he already had lots of friends. He gave himself a six-month crash course, traveling around the country. "I got all the bankers I knew to teach me how to run a bank," Israel says.

Teachers and pupil can take their bows. Today Pitkin is one of the most profitable banks in the country. Last year it earned $1.5 million—23% on equity, 2.02% on assets. Seventy percent of Pitkin's loans are mortgages, about half for second homes; but most are personally guaranteed by high-net-worth individuals, who generally pay their bills.

Now Israel is ready to branch out. Recently he took Pitkin public, selling 600,000 shares to raise $4 mil-

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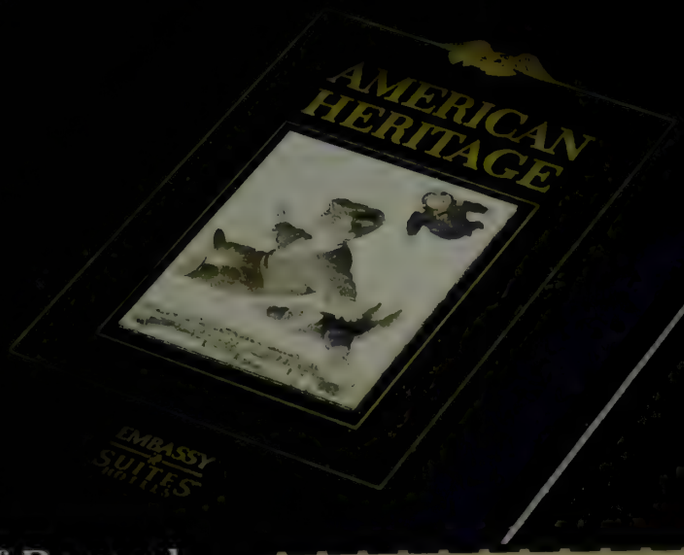

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lion in new capital. He is thinking about opening new types of Pitkin banks in other destination resort towns like Jackson Hole, Wyo. or Scottsdale, Ariz.—places well traveled by his Aspen friends and customers. –THOMAS BANCROFT

Back on track

THOMAS MONAGHAN didn't have much luck selling Domino's Pizza, the 5,500-outlet pizza delivery chain he started 31 years ago. He has taken Domino's off the block because the bids he got were too low. His asking price? Monaghan wouldn't say, but industry analysts put it at as much as $1 billion. The bids? "They were about a third of what I'd hoped to get," says Monaghan, "and about half of what I would accept." Monaghan, 54, says he now plans to keep Domino's. At least for the time being.

Monaghan has to start worrying about the business more. During the 1980s Monaghan, who was raised in a Catholic orphanage, indulged some consumer fantasies as he bought baseball's Detroit Tigers, a lodge on an island in Lake Huron, more than 100 cars (including an $8 million Bugatti), a passel of Frank Lloyd Wright furniture, and much else. "I spent money like a drunken sailor," Monaghan says. "I thought I could have everything in this world and everything in the next world, too."

Monaghan, a devout Catholic, woke up to the realization that there is more to life than toys. "Everything about me was pride, going way back to my childhood," he says. "I was always the most competitive in sports. Why? I wanted to impress people. I didn't do it because God wants me to do it, I did it because others did. I came to the conclusion that I should be impressing God and not other people."

Monaghan sold the Rolls-Royce limousine and the helicopter and halted construction on a $5 million house. He formed a group, called Legatus, of fellow Catholic chief executive officers, to share ideas on how to strike a balance between running a company and living a good Christian life. Now four years old, Legatus has more than 600 members across the country.

At Domino's, business was slow early in the year, because of competition and recession, but it has since picked up. "We lost the focus while I was off track," says Monaghan.

Deals with Burger King to sell Domino's Pizza inside the fast-food outlets, as well as a mall concept called Pizzazz!, will be halted as Monaghan concentrates on Domino's basic business: delivering pizza. He wants better recruiting and training programs and better site selections.

"It's easy to get distracted from what's important," says Monaghan. "We got into pan pizza and a lot of other stuff—we even started growing our own mushrooms. Those were all distractions that take away from what we do best—delivery."–JOHN HARRIS

Gregory Heisler

Tom Monaghan of Domino's Pizza
"I should be impressing God and not other people."

From stables to greens

VIRGINIA MCKNIGHT BINGER *(which see)*, heir to her father's 3M fortune, and her husband James, former Honeywell chairman, had to take a hard look at their well-known horse stable, Tarton Farms in Ocala, Fla., back in 1987. Tarton was started in 1958 by Virginia's father, William McKnight, former head of 3M. It produced its share of winners, and became regarded by some as one of the country's best horse-breeding farms. Virginia inherited it in 1978.

She rarely visited, but her husband James did. Then, in 1986, new tax laws eliminated much of the tax-shelter value of breeding horses. Profits evaporated from the industry.

In 1987 Binger, always a clear-thinking businessman, sold off $30 million worth of Tarton Farms' breeding horses, ahead of the worst decline in horse prices. But what of Tarton Farms itself? Other horse farms were already on the market, and prices were falling. He was receptive to offers, but, says Binger, as a horse farm Tarton Farms "isn't property that has any reason to be, at this point."

Yet the land is still potentially valuable. The Bingers have formed an investor group to develop Tarton Farms into upscale homes and villas and a golf course. They plan to dot an initial 425 acres (of over 700) with houses and fairways—"the type of change desired by the city fathers," comments Binger, 75. Bet on the Binger fortune to make it to the next generation. –LISA COLEMAN

Star Tribune/Minneapolis-St. Paul

James and Virginia Binger
Tax reform eliminated their stable's tax-shelter benefits. Today's plan: golf and homes.

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Spectra Merchandising International, Inc. YEP-100, YEP-200, YEP-300, YEP-400

Spectra Merchandising International, Inc. has introduced an exciting new line of electronic products designed exclusively for use by children under the IMA YOUTHTRONICS banner. Of the 12 models recently introduced, those already available include the YEP-100 Walkie-Talkie Set, YEP-200 Personal Stereo Cassette Player with Headphones, YEP-300 Sing-Along Cassette Recorder, and YEP-400 AM/FM Stereo Cassette Entertainment System with Detachable Speakers (pictured). These units are manufactured in compliance with the ASTM Standards for Toy Safety, in accordance with the Consumer Product Safety Commission guidelines for use by children. They are made with extensive use of heavy

ABS plastic for maximum durability and are virtually indestructible. All feature a One-Year Limited Warranty. Suggested Retail Prices range from $14.99 to $79.99. For further information, contact Mr. Thomas E. Bishop, National Sales Manager, Spectra Merchandising International, Inc., 3425 N. Kimball Ave., Chicago, IL 60618-5505; (312) 463-1030.

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Pioneer Laser Entertainment CLD-V820 Home Entertainment System

Pioneer Laser Entertainment incorporates digital signal processing and surround sound capabilities into its new Laser Karaoke combination player, model CLD-V820. The new home entertainment system allows consumers to enjoy Laser Karaoke video sing-along at home and play all sizes of compact discs (CDs) and LaserDiscs (LDs). In addition to playing the over 1,000 Laser Karaoke songs available on disc, the new player will also remove the vocal tracks from most CDs. The CLD-V820 also possesses such features as two-sided play, and a digital signal processor that creates three different sound environments including a concert hall, nightclub and outdoor arena.

L'Ancona Model B-100 A/V Furniture

Model B-100 (L'Ancona) features include European quality craftsmanship and styling manufactured in Italy; all metal, heavy gauge construction; four rolling casters for easy moving; high impact thermo finish; shipped KD with simple assembly. This unit is designed to hold TV monitors up to 25" with dimensions of 28"W x 28 1/2"H x 17 1/4"D. For the name of the nearest dealer, call BELL'OGGETTI, (908) 972-1333.

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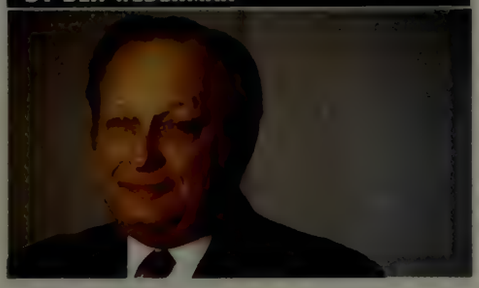
Don't think you can increase your yields without raising your risk. Mortgage-backed obligations are credit safe but carry major market risk.

Good yield, market risk

BY BEN WEBERMAN



Ben Weberman is a columnist for FORBES magazine.

INVESTORS searching for yields to replace expiring bond and money market returns are snapping up huge quantities of mortgage-backed securities. They are available in short-term forms to substitute for lower-yielding money market investments. They also come in intermediate- and long-term maturities to compete with U.S. Treasurys.

Mortgage-backed securities—issues collateralized by pools of mortgages—come in several varieties. Some are straightforward pooled, so-called pass-through obligations, in which the investor receives all interest and principal repayments made by the holders of underlying mortgages. Others have been securitized into collateralized mortgage obligations, divided into several classes of issues with stepped priority to receive interest and principal repayments. Thus, maturities can be short, intermediate or long term. Some have fixed rates, others are adjustable.

Mortgage-backed securities have great credit ratings. Most are AAA in quality, the highest possible obtainable and just short of a U.S. Treasury obligation in quality rating. And most of them carry yields of about 80 to 100 basis points above Treasurys of comparable maturities.

But remember that interest on mortgage-backed securities is subject to state tax, while interest on Treasury debt is exempt in nearly every state. So they might be more appropriate for tax-deferred accounts such as Keoghs and IRAs. Moreover, mortgage-backed securities also carry significant market risk: Their values can rise or fall sharply as interest rates move. That is because there is considerable uncertainty about when the mortgage pool will mature. More on that later.

Probably the best thing to stick to is the plain-vanilla variety, such as GNMA 30-year pass-through pools. But even in this circumstance, it's necessary to distinguish among issues by coupon.

The average life of the issue will depend on how quickly people pay off their mortgages and what rate they're currently paying. In the case of CMOs the life is influenced by its claim priority. People obviously tend to refinance when rates fall. Current mortgage rates average 8¾%. Thus, 8% GNMAs, representing a pool of 8½% mortgages, are likely to have a weighted average life of 9.4 years. At the same time, a 10% GNMA has a weighted average life of 7.4 years. The difference in life is based on projected prepayments. The 12% GNMA has a weighted average life of only 4.7 years.

Let's look at price and yield for a further understanding of risk and return. The GNMA 8% series trades at 98$^{16}/_{32}$ to yield 8.35%, while the 10s sell at 106$^{31}/_{32}$ to yield 8.62%, if the projected life is correct. A rush of prepayments—which is quite possible by those holding GNMA 10½% mortgages—would shorten the period during which the investment may be retained.

More im
ments an
100, even th
106$^{25}/_{32}$, would
loss of investor pri

Laurence Fink, chie
Blackstone Financial Ma
would therefore advise inves
stick to mortgage-backed p
through issues carrying 9% coupons or lower. He suggests use of the relatively new type of short-term mortgage-backed mutual funds as a higher-yielding alternative to money market mutual funds, which pay only 5.5% or less. Blackstone manages two new short-term mortgage mutual funds to sell to those looking for more than the low yields.

One is the Blackstone Government Income Trust and the other is the Dean Witter Premier Income Trust. They have durations of two and three years, respectively, and offer SEC yields of 7.5% and 7.1%.

Michael Waldman, managing director of mortgage research, Salomon Brothers, says straightforward planned amortization class collateralized mortgage obligations (PAC CMOs), are worthwhile for investment. A CMO is created by redirecting the cash flow of interest and principal repayments. Most payments are directed first to the shortest tranche. When that has been redeemed, the cash flow goes to the next-shortest tranche. And so on until all have been paid off. This is a technique for giving mortgage securities a more predictable maturity.

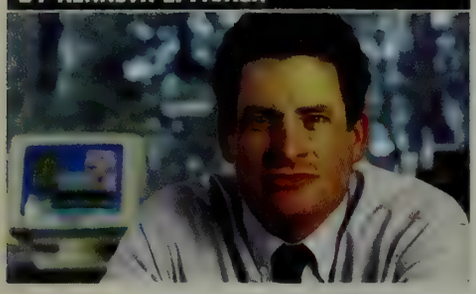
Short-term mortgage funds are a more recent phenomenon; they are a compromise between an intermediate-term corporate fund and a day-to-day money market fund. A lot of the new short-mortgage trusts have heavy portfolio representation of ARMs—adjustable-rate mortgages. They may also have short-maturity fixed-rate CMO tranches.

Lewis Ranieri, who heads Hyperion Capital Management, recommends purchase of funds that have shorter-maturity mortgage issues. His new fund, the Ranieri Shearson Adjustable Rate U.S. Government Fund II, has a duration of a year, a distribution rate of 7.79% and a 30-day SEC yield of 8.32%.

dynamic economy, today's winners can be
orrow's losers—and vice versa. Here are a couple
losers that should become winners.

Unloved and undervalued

BY KENNETH L. FISHER



Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: *The Wall Street Waltz* and *Super Stocks*.

EACH YEAR SOME FOLKS join The Forbes Four Hundred, and others drop off it. The dropouts fall into three main groups. First are the Disasters. Donald Trump and the Hunt brothers come to mind. From a position most folks would call "having it all," these dropouts shoot big, have big egos and make visible, nondiversified and risky moves, usually on leverage, to try to become richer than rich. Eventually they push their luck too hard, and . . . disaster strikes. Goodbye to The Four Hundred.

Then comes the Slow Bleeder variety of dropout. This includes most of the great fortunes of the early 20th century—the "shirtsleeves to shirtsleeves in three generations" crowd. These heirs often try to justify their position in life by running their investments without any real know-how—usually steering their assets on a different route from Daddy's so they can put their own mark on their wealth, making it "theirs."

As often as not, these people are swayed by lavish lives, pride, vanity or social issues and not by acumen. Their wealth dwindles slowly but surely and may even vanish.

Finally come the Passive—the rich who get richer, but too slowly to keep up with the Joneses. Tending toward too timid, these folks won't allow themselves heavy exposure to wealth-building assets for fear of taking a risk. They may be rich, but their kids probably won't be after inflation and taxes.

What's the moral here? I think it is quite simple: Stick with things you know and understand and do them aggressively enough so you can keep up with the Joneses. If you want to invest outside your own expertise or don't have any expertise, get professional help so you don't one day find yourself feeling like a member of the formerly rich.

I know and understand stocks, especially smaller, overlooked and underloved value stocks. Here are a few that appeal to me now:

Outboard Marine (17), the recreational boat and motor maker. It's cheap at 75% of book value, 35% of its annual revenue and about 7 times what its earnings should be after the recession is over. It's strong in its basic business and in excellent financial condition. But the real surprise is likely to be growth, which almost no one expects. As the baby boomers become middle-agers in the 1990s, the market for big-ticket recreational items like OM's should grow strongly.

Which is the same reason I think recreational vehicles and motor homes should do better in the 1990s than in the 1980s. *Skyline* (15) is a stock almost no one expects anything from. It has been flat for ten years and its earnings, like those of everyone in its industry, got bombed in the recession. Yet I think the 1990s will be far kinder to Skyline than the 1980s were. It can certainly finance growth—no long-term debt, almost no short-term debt and $110 million in cash. Yet the whole company sells for a price tag of only $150 million. I think it should easily double by 1995.

As Rodney Dangerfield would say: *SCI Systems* (7, o-t-c) gets no respect. But I think it should. It is the leading circuit board "stuffer" for the computer industry—which has had rough times just lately. But the computer industry's growth will come back. The stock has been hurt by the perception among some investors that SCI Systems' chief executive, Olin B. King, is no darn good—self-centered and dictatorial—and that no one worth his salt wants to work for him.

So, they think chief operating officer Eugene A. Sapp is some sort of sap just for being there. I disagree. Sapp is an excellent executive and I think King is a major asset, not a liability. His customers tell me no one is better in the business than King, and while, yes, he has had a lot of employee turnover, that hasn't stopped him from growing the firm tenfold in size since 1982.

I think the real reason so-called sophisticated investors don't like SCI is that the stock isn't any higher than it was in 1982, when they were overvaluing King and his crew at 2 times annual revenue and 5 times book value. They got bagged—they did it to themselves. They think the same guy and firm, 10 times larger, are now worth only 15% of revenue, 75% of book value and about 7 times what SCI will earn after the recession is history.

This misperception on the part of some investors creates an opportunity for others. SCI Systems is in a far stronger position today than it was in 1982, by virtually any measure. ■

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CORPORATE REPORT Updates

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METEK, INC. N

AMETEK RAISES THIRD QUARTER DIVIDEND, MARKS 42ND CONSECUTIVE YEARLY INCREASE

New York, NY—The board of directors of AMETEK, Inc. ysa-AME) has declared an increase in the industrial anufacturer's quarterly dividend, raising the third quar- 's payout to 17 cents per share from the previous quarterly e of 16 cents per share.

The increase, to an indicated annual rate of 68 cents per are, makes 1991 the forty-second consecutive year in ch AMETEK has increased its dividend payments to ckholders, a unique record among New York Stock change-listed industrial manufacturers, according to the ompany's president and chief executive officer, Walter E. Blankley. "Beginning in 1950, AMETEK has increased its total cash payments to its stockholders every year," Mr. Blankley said.

The increased third quarter dividend of 17 cents per share is payable on September 30 to stockholders of record September 16, 1991.

(Contact: Darrah Ribble, AMETEK, INC., Station Square Two, Paoli, PA 19301. Phone: (215) 647-2121.)

CLEARLY CANADIAN BEVERAGE CORPORATION O-V

ANNOUNCES FOURTH QUARTER AND YEAR END RESULTS
FISCAL 1991 EARNINGS PER SHARE OF $0.51

VANCOUVER, B.C., AUGUST 28, 1991—CLEARLY CANADIAN BEVERAGE CORPORATION (NASDAQ Symbol: CLCDF; VSE Symbol: CLV) today announced results for the fourth quarter and year ended June 30, 1991.

Sales for the fourth quarter ended June 30, 1991 increased 286% to US $26,312,201 compared to US $6,824,725 reported in the fourth quarter of fiscal 1990. For the fourth quarter of fiscal 1991, the Company reported net income of US $2,756,181 or US $0.24 per share, compared with net income of US $21,957 or US $0.00 per share, reported in the comparable quarter of fiscal 1990.

For the year ended June 30, 1991, sales increased 252% to US $61,197,443 compared to US $17,372,812 reported in fiscal 1990. The Company reported net income of US $5,910,171 or US $0.51 per share. During fiscal 1990, the Company reported a net loss of US $1,208,243 or US $0.13 per share.

Douglas L. Mason, President of CLEARLY CANADIAN BEVERAGE CORPORATION, stated, "During fiscal 1991, we achieved our goal of completing the distribution network in the United States. This achievement, coupled with heightened consumer demand for our product in established areas, enabled the Company to attain record revenues and our first fiscal year of profitability."

"Demand for Clearly Canadian remains strong, a trend we believe will continue during fiscal 1992 as we increase our advertising and promotional activities," Mason continued. "Management will also direct its attention to expanding international awareness of the brand. These activities will be funded in part by the proceeds of our recently completed financing. We remain confident that fiscal 1992 will be another record year for the Company."

CLEARLY CANADIAN BEVERAGE CORPORATION, produces and markets Clearly Canadian™ a line of natural and flavored sparkling mineral waters. Through distribution agreements, Clearly Canadian™ is sold throughout the United States, Canada, Japan and England.

For more information or the company's annual report, contact: Daniel B. Evans, Director of Investor Relations, Clearly Canadian Beverage Corp., 1700-355 Burrard Street, Vancouver, B.C. Canada V6C 2G8. Phone (604) 683-0312.

TJ SYSTEMS CORPORATION O

TJ Systems Earns $592,580 For Second Quarter; $923,513 For First Six Months

HAUPPAUGE, NY—August 9, 1991—TJ Systems Corporation (NASDAQ: TJSY) announced today that it earned $592,580, or 12-cents per share, on revenue of $3,945,492 for its second quarter ending June 30, 1991 compared to earnings of $62,732, or two cents per share, on revenue of $2,666,523 for the same period last year. The company said it earned $923,513 or 24-cents per share, on revenue of $6,211,399 for the six months also ending June 30 1991, compared to earnings of $613,494, or 20-cents o revenue of $6,211,433 for the same period a year ago.

Theodore J. Orlando, TJ Systems' president said, "We ar pleased with the second quarter results, especially whe they are compared to our first quarter numbers. Revenu increased from $2,265,907 to $3,945,492, an increase o $1,679,585 or 74 percent, and earnings increased fon $330,933 to $592,580, an increase of $261,647 or 7. percent."

The company said its per share calculations were base on a "weighted average," using 3,000,000 shares for a periods in 1990, 3,008,482 for the first quarter, 4,847,24 for the second quarter, and 3,909,893 for the first s months of 1991. The company said it has 6,919,137 tot shares outstanding on August 9, 1991.

(Contact: Edward Williamson, Williamson & Associate 800-992-6616.)

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(Continued from p. 21)

■ The first event is the United States' decisive rejection of the isolationism that dominated its policymaking in the 1930s and 1970s. The Persian Gulf war sent an unmistakable message: We won't tolerate aggression that threatens our national interests.

In peacetime, we can't abandon our resolve. If the U.S. withdraws from the world, evil wins. Our responsibility isn't, of course, to be the world's policeman; it is to be the *leader* of the free world. We must fulfill that responsibility by encouraging other nations to adopt freer political and economic institutions and by resisting encroachments upon our own liberty—at home and abroad.

■ The second event that is helping to create a new world order is the high-tech revolution. Most people regard technology as an enemy of individual freedom. In reality, technology is the mortal enemy of tyrants and bureaucrats; it doesn't suppress ordinary people—it frees them from centralized control and gives them unprecedented power over their own destinies.

As George Gilder, Warren Brookes and others have pointed out, the computer chip is the symbol of the new liberating technology of the late 20th century. This tiny invention, made of "worthless" sand, is extending the reach of the human brain the way machines extended the reach of human muscle 150 years ago.

Superficially, we still think of wealth as land, as piles of gold, as material goods, and, not so long ago, as slaves and serfs. But wealth is intangible. What is oil, for instance? It is simply black ooze. You can't even feed it to camels. What makes oil valuable is human ingenuity. Similarly, it is not the pieces of the computer chip per se but the uses to which you can put them that make for real wealth.

■ The third event is the failure of centralized government. Everywhere, communist and other totalitarian governments are losing control. As their citizens get a little taste of freedom, they want more. Even in the most closed societies a person can fax written documents, receive satellite communications and transfer billions of dollars in an instant via computer—in such an environment, how can repressive regimes do more than postpone their own inevitable collapse?

It comes down to a simple choice: Nations can imitate the U.S. and adopt freer political and economic institutions or they can continue, for a limited time, down the old path of slavery and dictatorship.

Another thing to remember about the new world order is that it will not bring about political unity; it is quite likely, in fact, that we will see political disintegration at the same time that we see more economic integration.

In Western Europe, economic integration is imminent, but political integration is as unrealistic as it is undesirable. Britain's former Prime Minister Margaret Thatcher fought against the kind of political unification and bureaucratization that they had in mind in Brussels, and her firm stance appears to be paying off now that her successor, Mr. Major, has appeared on stage making polite, soothing noises but essentially carrying on the same policies.

In the Soviet Union there are signs that meaningful economic integration is on the way. The Baltic countries, the Ukraine and other regions may follow the example Finland set in 1917 when it broke away from the Russian empire. Today, Finland, with fewer than 6 million people, is one of the more prosperous countries in the West. In the new world order, any country—no matter how small or downtrodden—can achieve prosperity.

Requirements for Prosperity

Whether it is Eastern or Western Europe, Latin America, the Soviet Union, Asia or anywhere, there are four basic requirements that must be met if prosperity is to be achieved. They are amazingly simple, but all too often the experts, from policymakers to economists, ignore them:

■ The first requirement is that a country must have a sound currency. The Soviet Union's desperate attempt to implement perestroika proved that a sound currency isn't merely an option; virtually every Soviet economic reform failed. Why? Because rubles are worthless.

Germany, Japan and Italy were in just such a state of collapse after World War II, but their miraculous economic recoveries were all preceded by currency reform. Unfortunately, how this postwar miracle was achieved has been all but forgotten. Today, centralized organizations like the International Monetary Fund and the World Bank typically encourage currency devaluations (and hence, inflation) and disastrous fiscal policies.

■ The second requirement is low taxes and tariffs. Germany and Japan reduced their tax rates in the late 1940s and early 1950s, and Korea did so in the 1960s—all saw their GNP rise dramatically. Hong Kong is also an outstanding example of what such incentives can do to create new wealth and a booming economy. High taxes and high tariffs don't create wealth—they destroy it.

■ The third requirement is legally protected property rights. The right to buy, hold and sell property lies at the heart of all economic activity. What about a debt-ridden country like Mexico that is sitting upon vast reserves of oil? Why didn't it prosper? Because nationalized and semi-nationalized companies control oil production, just as they control most of Mexico's natural resources. Who wants to drill for oil when it will be seized by the state?

■ The fourth requirement is minimal bureaucratic barriers for setting up and operating businesses. Many countries penalize the would-be entrepreneurs, who are the backbone of any prosperous economy. Some, like the U.S., which is gradually tightening the noose around the neck of its small businessmen, need to deregulate; some, as the Soviet Union [is trying to do], need to completely restructure their economies in order to allow any degree of meaningful market activity.

Nowhere is the need to implement these basic requirements greater, however, than in the Third World. It is not capitalism but their governments' refusal to adopt sound currencies, low taxes and tariffs, property rights and minimum bureaucratic interference that condemns Third World nations to poverty, debt and stagnation.

If you look at the debt burdens of Brazil and Mexico, it is not their level of indebtedness that is the real problem. It is that they are overbureaucratized, overtaxed and overregulated.

One country doesn't need to exactly imitate another to

succeed. Not all prosperous Third World nations are identical, and not all have the same degree of political and economic freedom. Look at the "tigers" of the Pacific Rim—Hong Kong, Taiwan, South Korea and Singapore—they operate in very different ways even though they share a general commitment to free market policies.

What gains has the emerging new world order brought for the Third World thus far? Let's turn again to Latin America. For over three centuries Latin America has suffered under the yoke of economic feudalism—you also see it in Africa, the Middle East and the Soviet Union where it goes by a different name: socialism. But in Mexico the Salinas government is reducing trade barriers and economic regulations and is reforming the tax code. That's why Mexico is now growing at a rate it hasn't seen in ten years.

When the U.S./Mexico free trade agreement is signed, other countries will undoubtedly seek to join the new free trade zone, and there's no reason Latin America couldn't be experiencing growth rates comparable with the Pacific Rim's by the end of the decade. A number of Latin American countries are readying themselves for just such an economic miracle: Chile, Venezuela, Brazil and Peru.

Lessons

While the new world order continues to develop abroad, it has had some setbacks in the U.S. But, despite a poor start in the beginning of this decade, we should enjoy one of the most productive periods in our economic history.

The recent recession was one of the most *unnecessary* downturns of the postwar era. It was not preceded by inflation or by a rapid rise in inventories, and it wasn't brought on merely by the Persian Gulf war. Three major mistakes are to blame. First, the Federal Reserve kept interest rates too high too long. When the economy was booming several years ago, the Fed decided to raise interest rates with the express purpose of slowing it down. That's the proper way, according to the collective wisdom of all central bankers, to fight inflation.

Compounding that error was a second one: a regulatory reign of terror unleashed by politicians and lawyers in the aftermath of the S&L and junk bond scandals. As a result, many institutions were suddenly unable or unwilling to lend to otherwise creditworthy customers. And then the U.S. Treasury Department went on one of its periodic binges trying to knock the value of the dollar down. Not surprisingly, the dollar fell, unable to recover until the bureaucrats backed off earlier this year.

The third mistake was even more damaging. With an exquisite sense of timing, our leaders in Washington decided, just as we were slipping into a recession, to call for a big tax increase. States and municipalities have been doing the same, contributing to a thus entirely avoidable economic downturn. Congress also failed to pass a capital gains tax cut. The rate that we have now—one of the highest in the world—keeps money locked into old investments, stalls innovation and new technology and kills off thousands of potentially successful small businesses.

We need to practice what we preach about free markets and pay more attention to the four basic requirements for prosperity in the new world order. That's where we can have an important impact by reminding our families, friends, local communities and state and national representatives that freedom, not more state control, is the key to the future. Here are two examples of realizable reforms (we can substitute many others) that we can start pushing for right now. (1) Congressmen should be forced to obey the laws that they pass for the rest of us. They are exempt from some very basic ones. (2) We can help limit government spending by pressuring the states to adopt privatization programs that return basic services to the private sector.

These are flanking movements rather than trench warfare. And they are more likely to succeed than, say, trying to slash Social Security or the entire domestic budget. And they do affect larger issues.

What about the "underclass" in America? It is largely concentrated in the inner cities and, depending on whose numbers you believe, ranges from 5% to 12% of the population. Jack Kemp argues that while we have a free market economy for about 90% of the population, we have a Soviet-style economy for this underclass. Economic incentives for getting out of it are few. You lose a lot of benefits. The effective tax rate if you start to earn an independent living can be 90% to 100%. And the rules about what you can do with your own money are severely restrictive.

The problems of the underclass and of our secular, often nihilistic culture may encourage a moral revival in the 1990s. In 1830 the U.S. suffered from a per capita drinking rate several times higher than it is today. Then came Temperance, and, unlike Prohibition, it was a voluntary, religiously inspired movement. Ten years after it began, the per capita drinking rate was halved.

Clearly, people do respond to moral messages. Today it's no longer an "in" thing in most circles to smoke pot or shoot up. The exception is in the inner cities where heavy drug use can be linked to economic deprivation and, most important, to the lack of moral instruction that families and churches can provide.

At the very least in any moral revival, you can give people responsibility—most of them eventually respond to it. For those who claim the underclass can't accept much responsibility because they can't compete in a world where there is so much social injustice or because of cultural/racial barriers, there is plenty of evidence to suggest otherwise.

A hundred and fifty years ago, the Catholic Church sought to improve the deplorable condition of Irish immigrants in the cities. The acknowledged experts claimed that the Irish were too backward, too ignorant and "very poor human material." They were wrong. When people want to get ahead, it's amazing the skills they can acquire. In the Persian Gulf, our enlisted men and women, many of them 18- to 20-year-olds, learned to handle sophisticated equipment and pull off complex, demanding military maneuvers—and 23% of them were black.

There are many other examples that prove the same point here and around the globe. A restoration of moral values is possible for all people, not just for the privileged, not just for members of one racial or ethnic group or of one nation. Of everything the new world order offers, this is perhaps the most important blessing of all. ■

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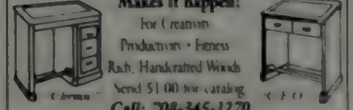

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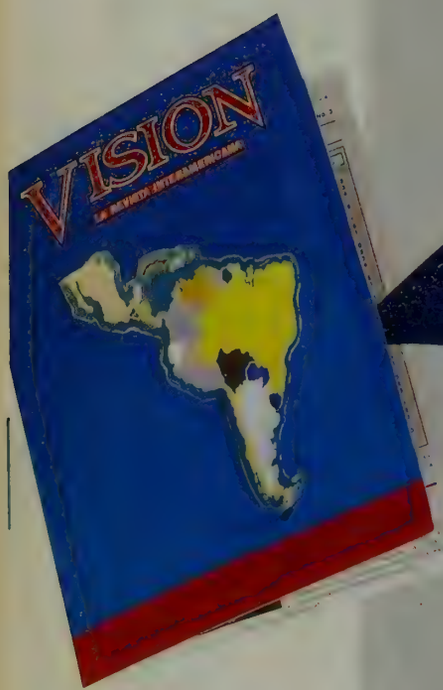

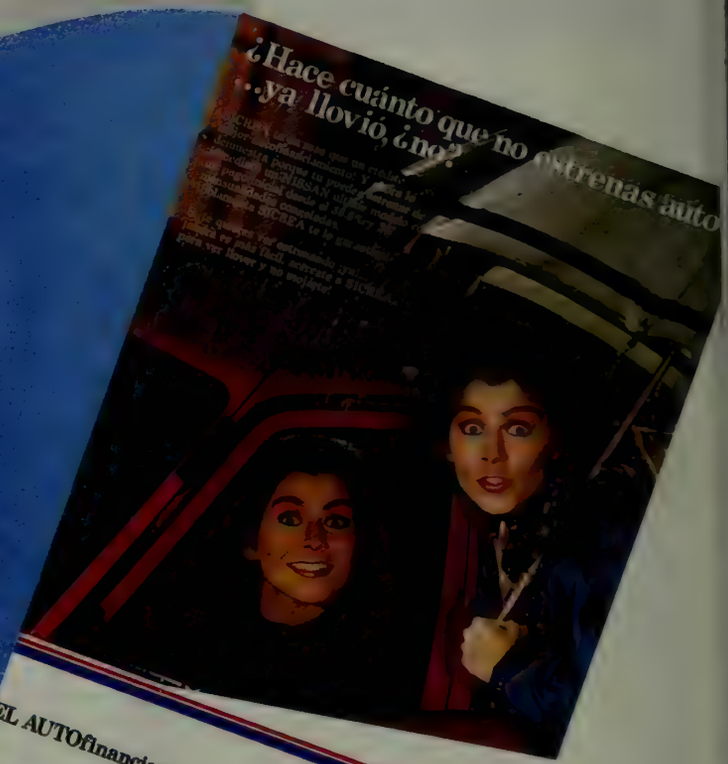

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"The more things change . . ."

70 years ago in Forbes

(From the issue of Oct. 15, 1921)

"**There is only one** direction in which the government can drastically cut down expenditures, namely, by stopping the gigantic outlays on armaments and everything connected therewith. War is mankind's greatest curse today. Another world war would bring destruction beyond all imagination. Yet the world's leading nations are all feverishly preparing for more war."

"**Despite depression** and unemployment, savings of small investors, the Treasury Department reports, total $27 billion, or, based on population of 108 million, per capita savings of about $250. Approximately $21 billion of this sum is invested in government securities, while the remainder is on deposit in more than 30,000 savings banks."

60 years ago

(From the issue of Oct. 15, 1931)

"**This writer,** while freely admitting that short selling has its undisputed uses in normal times, very strongly believes that the New York Stock Exchange governors should temporarily prohibit this form of betting that the depression will go farther."

–B.C. Forbes

"**One American industry** now rescues what used to be blown into the air and turns it into hundreds of millions of dollars a year. Natural gas, nothing but a nuisance until a few years ago, is now captured and sold for more than $400 million; also from this same ex-waste, more than $150 million of gasoline is produced and marketed. Sixteen million Americans now enjoy the use of natural gas."

50 years ago

(From the issue of Oct. 15, 1941)

"**The mines** [of Cripple Creek, Colo.] were drowning. About 2,000 feet below the surface stood water. Deep pumping costs money, often more money than a mine can produce. . . . But [Cripple Creek] would not give up without a bold, breathtaking try. It undertook the great Carlton tunnel and this summer completed it—the

Colorado's giant Carlton tunnel reopened flooded mines, opened new ones.

longest blind-end tunnel ever driven and at the same time the most gigantic 'prospector's hole' ever dug.

"It is a complete success. The mines are draining. . . . The great bore, drilled six miles straight into the solid rock of Pike's Peak, opens a new mining area of 30 square miles and a quarter mile thick."

"**So far, toymakers** have not been hit by the war. Except for a small amount of rubber, they use only nondefense materials. And with Japanese imports cut off, the industry expects this season's sales to top last year's $240 million volume. This year's sales theme: 'Toys Build Morale.' "

25 years ago

(From the issue of Oct. 15, 1966)

"**By the second week** in October, popular stock market averages were down 25% from their February highs, making this the worst drop since 1962's 26%. But most investors. . . were sitting with paper declines a good deal worse than 25%. . . . The [125] largest companies in 26 major industries covered in our Annual Report on American Industry. . . were down, on average, a full 33% from their 1965-66 highs."

"**Life insurance** has become the nation's first industry to begin reporting its volume in trillions, says *Insurance* magazine, which reported that life insurance in force in the U.S. hit the $1 trillion mark last month. Insurance analysts expect the figure to hit $2 trillion by 1976. . . ."

10 years ago

(From the issue of Oct. 12, 1981)

"**The civilian helicopter** market is coming into its own. This year U.S. builders will deliver an estimated $700 million worth of the rotorcraft for civilian use, more than double the shipments in 1975. . . . Civilian sales in the U.S. have already surpassed sales to the military."

A Sikorsky S-76 helicopter sails past New York's World Trade Center.

"**The oil sheikhs** are finding Japan more and more attractive as a place to bank their petrodollars. A survey by Tokyo's Nomura Research Institute found that last year total oil-dollar investments in Japan reached $25 billion, up from $10 billion in 1979. By 1985, Nomura figures, the number will reach $78 billion."

Saudi Arabia's oil boss Sheikh Yamani.

Real writers—that is, capital W Writers—rarely make much money. Their biggest reward is the occasional reader's response. . . .

Commentators-in-print voicing big fat opinions—you might call us small w writers—get considerably more feedback than Writers. The letters I personally find most flattering are not the very rare ones that speak well of my editorials, but the occasional reader who wants to know who writes them. I always happily assume the letter-writer is implying that the editorials are so good that I couldn't have written them myself.

–MALCOLM FORBES

A Text ...

Knowest thou not this of old, since man was placed upon earth, That the triumphing of the wicked is short, and the joy of the hypocrite but for a moment?
–JOB 20:4-5

Sent in by Esther Lafair, Philadelphia, Pa. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Genealogy: A perverse preoccupation of those who seek to demonstrate that their forebears were better people than they are.
–SYDNEY J. HARRIS

Genealogy: An account of one's descent from an ancestor who did not particularly care to trace his own.
–AMBROSE BIERCE

Man is descended from a hairy-tailed quadruped, probably arboreal in his habits.
–CHARLES DARWIN

Heredity is what sets the parents of a teenager wondering about each other.
–LAURENCE J. PETER

The proper time to influence the character of a child is about a hundred years before he is born.
–WILLIAM R. INGE

If you would civilize a man, begin with his grandmother.
–VICTOR HUGO

Many a family tree needs trimming.
–KIN HUBBARD

It is indeed desirable to be well descended, but the glory belongs to our ancestors.
–PLUTARCH

A degenerate nobleman, or one that is proud of his birth, is like a turnip: there is nothing good of him but that which is underground.
–SAMUEL BUTLER

Think of your ancestors and your posterity, and you will never marry.
–ETHEL MUMFORD

Heredity: the thing a child gets from the other side of the family.
–MARCELINE COX

Heredity: An omnibus in which all our ancestors ride, and every now and then one of them puts his head out and embarrasses us.
–OLIVER WENDELL HOLMES

There is something to be said for government by a great aristocracy which has furnished leaders for the nation in peace and war for generations; even a democrat like myself must admit this.
–THEODORE ROOSEVELT

With him for a sire and
her for a dam,
What should I be but
just what I am?
–EDNA ST. VINCENT MILLAY

There are many kinds of conceit, but the chief one is to let people know what a very ancient and gifted family one descends from.
–BENVENUTO CELLINI

To forget one's ancestors is to be a brook without a source, a tree without a root.
–CHINESE PROVERB

I don't know who my grandfather was; I am much more concerned to know what his grandson will be.
–ABRAHAM LINCOLN

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OCTOBER 28

...s in distressed hotels

Turmoil in the U.S. auto market—even the Japanese

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October 28, 1991 Four Dollars

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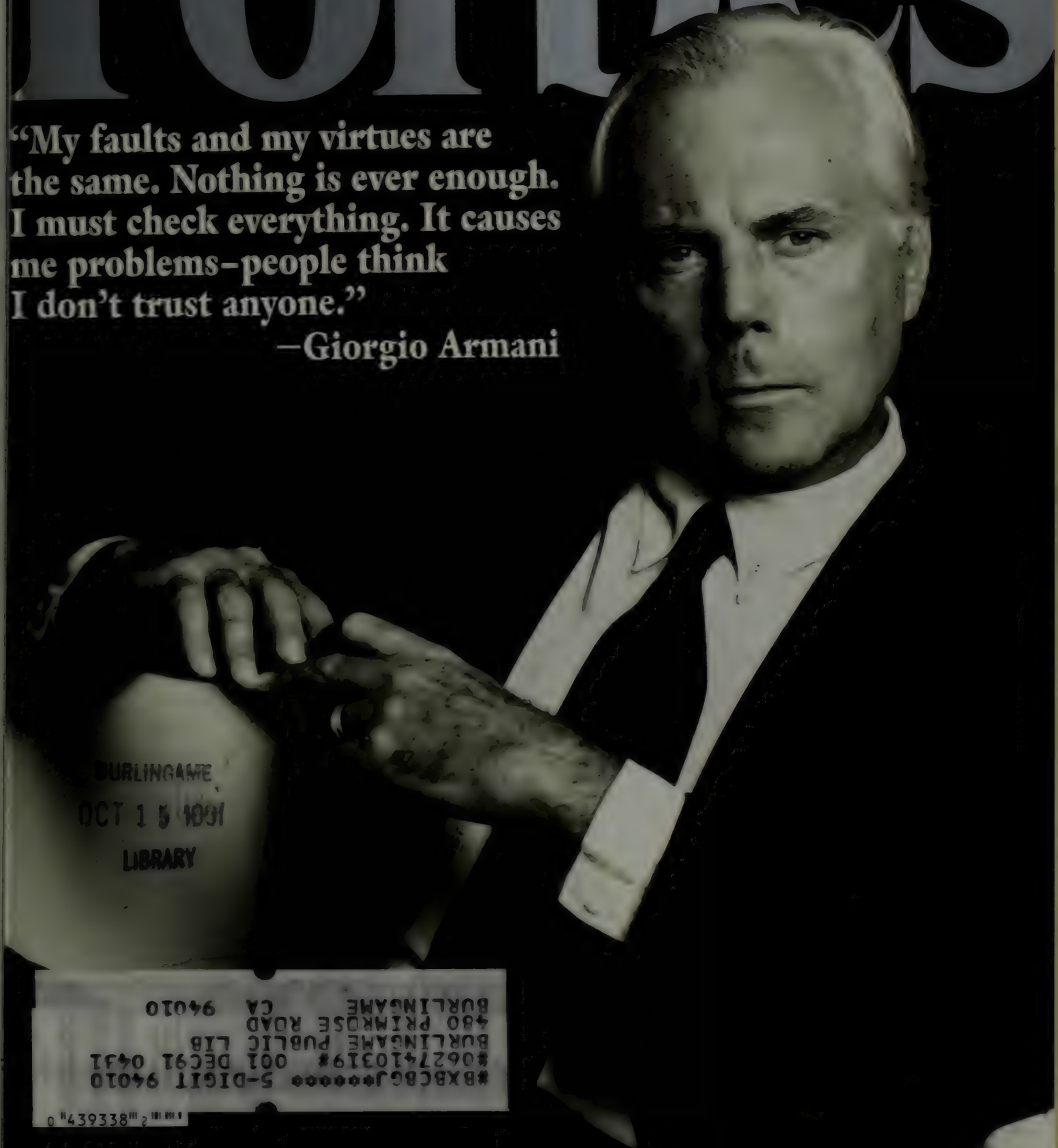
"My faults and my virtues are the same. Nothing is ever enough. I must check everything. It causes me problems–people think I don't trust anyone."

–Giorgio Armani



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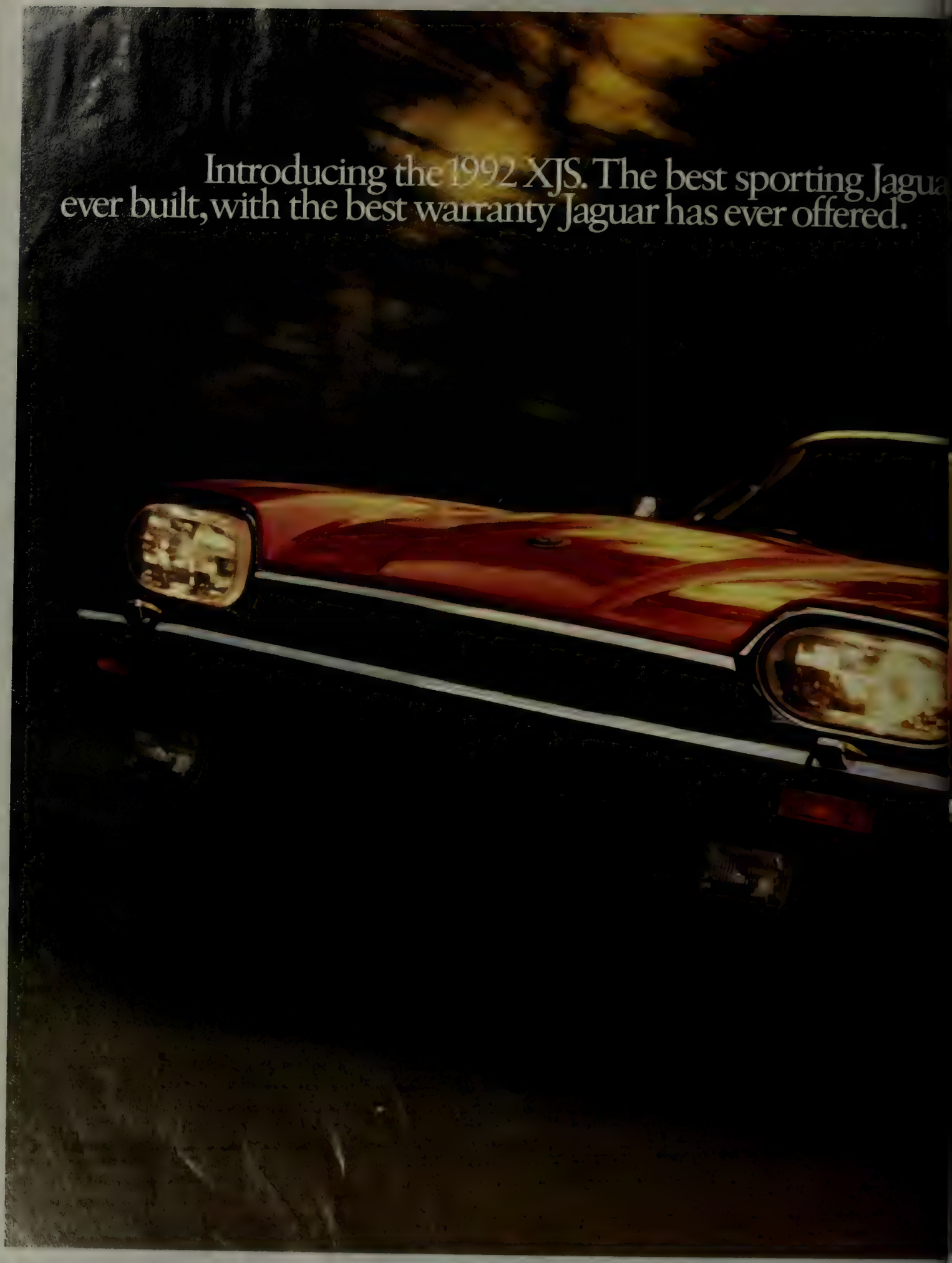

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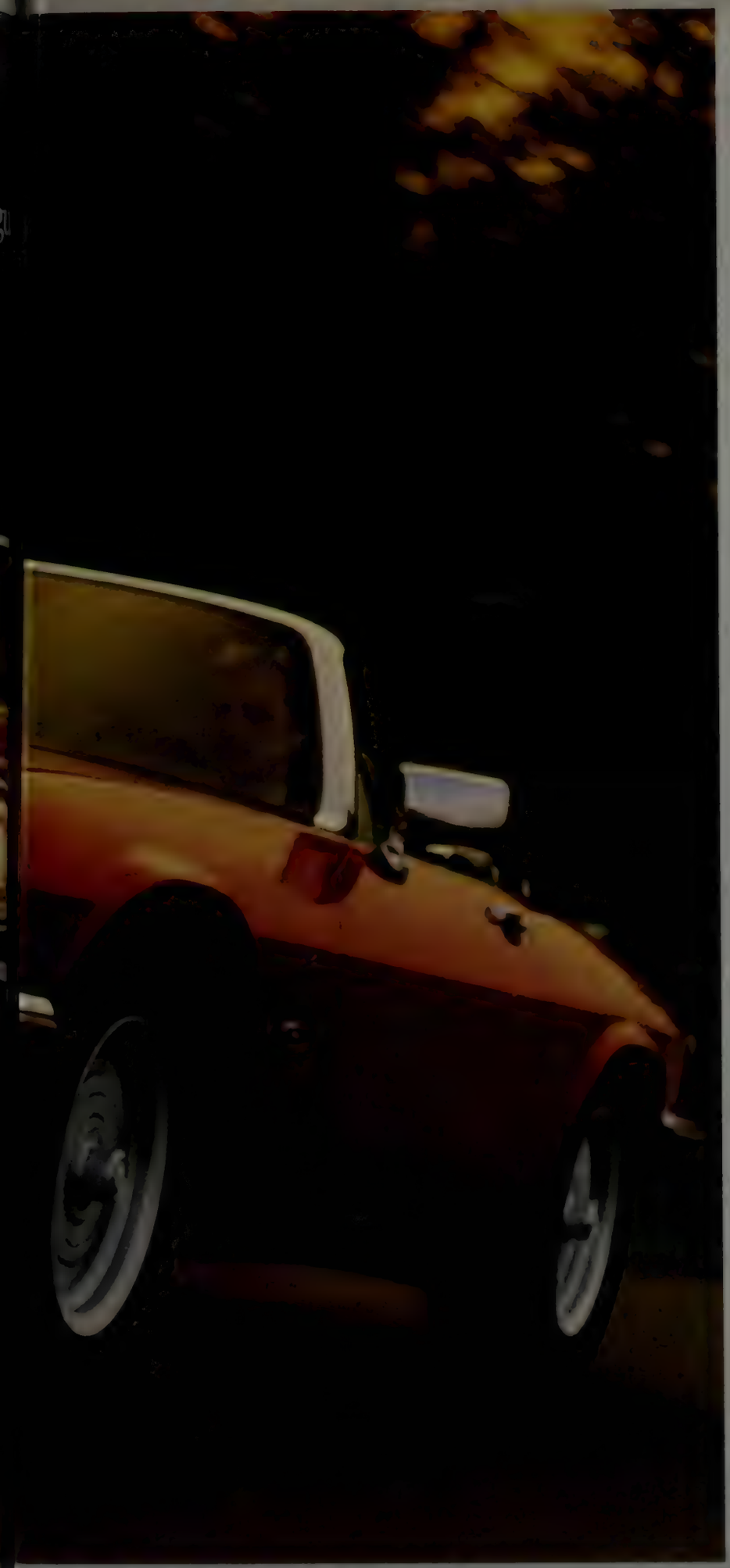

Some say it was the 1939 SS-100. Others are partial to the 1954 XK-120. And, of course, a most compelling argument could be made for the celebrated 1963 E-type. But the time has come to put all such arguments aside.

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To give and to take away

IT WOULD HAVE BEEN inconceivable a few decades ago for FORBES to feature a clothing designer on its cover. Big business was steel, real estate, machinery, tangible stuff. Designers were for the fashion pages. Today big business is as likely to involve an idea, a concept, as it is buildings, capital or patents. Thus our cover story on Giorgio Armani. While his firm does some manufacturing and a good deal of retailing, it is really built around nothing more solid than a single talented man's taste. That talent and his down-to-earth sense of how to market it have made a billionaire of this one-time freelance designer. "Dare e togliere," by Joshua Levine, begins on page 115. The Italian term means "to give and to take away," which is Armani's own succinct summation of his marketing philosophy.

Albert Ortega/Retro Galeria

Actress Jodie Foster in example of Armani's billion-dollar talent

When the going gets tough

ONE BY ONE, European car manufacturers pulled out of the low-and medium-price segments of the U.S. auto market. Fiat, Peugeot, Renault, Sterling, all gone. Only Volkswagen remains. (It's different in luxury cars, where Rolls, Mercedes, BMW and others remain powerful contenders.) In conceding the biggest part of the U.S. market to Detroit and the Japanese, the Europeans make an embarrassing confession: that they cannot produce cars capable of competing with the best from the U.S. and Japan. What's to blame? Protectionism. In "In the long run you can't hide from competition," Peter Fuhrman shows how protectionism weakens the very industries it is designed to help. Story starts on page 42.

Edward IV was a deadbeat, Carlos Salinas is not

IN 1980 Walter Wriston, then chairman of Citicorp, was defending huge loans made by U.S. banks to developing countries and FORBES reminded him that the de' Medici family was ruined in the 15th century when King Edward IV of England stiffed the Florentine bankers on big loans; so much for sovereign nations as sound risks. Wriston responded good-naturedly that Lorenzo de' Medici's problem was that he spent too much time on cultural activities and not enough running his bank.

Suddenly, in 1991, much of that lending to Latin American countries looks less dumb than it did when we cited conventional wisdom against unconventional Wriston. In "Good news at last," Laura Jereski reports on the rally in Latin American debt securities, page 44. So I asked Wriston whether he feels vindicated. He does: "The exciting thing," he replied, "is that the huge resources of Latin America are now being unleashed through a free market system. The free market is not a gringo idea now; it has worked in Mexico. So it is spreading." Assuring a brighter future for the poor of Latin America, while incidentally redeeming what looked like a lot of bad loans.

James W. Michaels
Editor

A futuristic interpretation of a legendary design: The Movado Sapphire Museum SD® Watch.

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Son of First Jersey

BROKERAGE FIRMS with ties to Robert Brennan of First Jersey Securities infamy (FORBES, *July 16, 1984*) seem to have a knack for getting into trouble. The latest instance is New York City-based Hibbard Brown & Co. Hibbard's staff includes Brennan's son and several of his former top lieutenants. Its more than 400 brokers in eight states make markets in at least two companies in which Brennan has large minority stakes *(Dec. 24, 1990)*.

Later this month Delaware securities regulators will move to revoke or suspend Hibbard's state license and may hit the firm with over $1 million in fines. Delaware found that Hibbard used "dishonest and unethical" tactics to sell stocks of dubious value. Ohio is also seeking to revoke or suspend Hibbard's license.

Geoffrey Biddle

First Jersey's Robert Brennan
A regulators' raid at Hibbard Brown.

In July seven states—Massachusetts, New Jersey, Ohio, Pennsylvania, Florida, Missouri and Kansas—conducted a joint raid on local Hibbard Brown branches, looking for evidence of abusive and misleading sales tactics, unauthorized trades or excessive markups. One result of the raid: Missouri regulators issued a cease-and-desist order against Hibbard for violating a state rule that prohibits brokers from pitching stocks priced under $5 without telling customers the bid and asked prices. Another: Florida regulators fired off an administrative complaint to Hibbard alleging it was not keeping adequate trading and other office records at its Palm Beach branch.

Investigations are continuing in each of the states that conducted the joint raid. "This [penny stock] market is a lightning rod for regulators," complains Hibbard President Richard Brown. Echoes Brennan, "In the securities business you have to have some regulation. But to some extent, there has been a bit of overkill."

Final act

UNION CARBIDE can finally close the book on the tragic gas leak at its Bhopal, India pesticide plant. The 1984 disaster, which killed over 2,000 people and injured tens of thousands more, also demolished Carbide's stock value. That led to an unsuccessful raid on the giant chemical company by GAF Corp.'s Samuel Heyman, forcing Carbide to load up on debt and sell some prize operations *(Dec. 10, 1990)*.

Earlier this month the Indian Supreme Court unanimously upheld a previous settlement requiring Carbide to pay $470 million to Bhopal victims and their families; since Carbide paid the money two years ago, the judgment will have no impact on its 1991 earnings. Other conditions: If the payout doesn't cover all the victims, the Indian government must make up the difference. Over the next eight years, government-owned insurance companies must provide life and medical insurance to the victims. Carbide may build and run a 500-bed hospital in Bhopal. The decision also

Carbide's Bhopal plant
The litigation is finally over.

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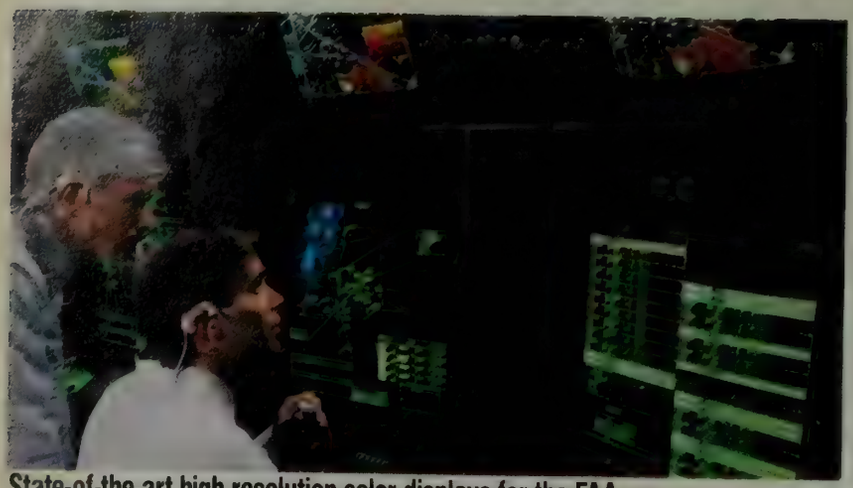

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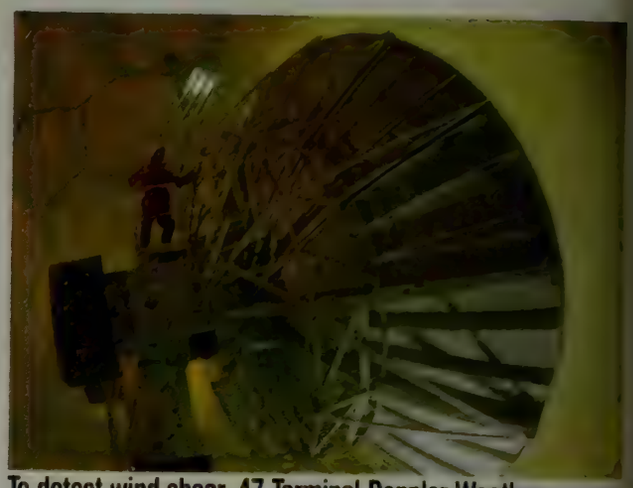

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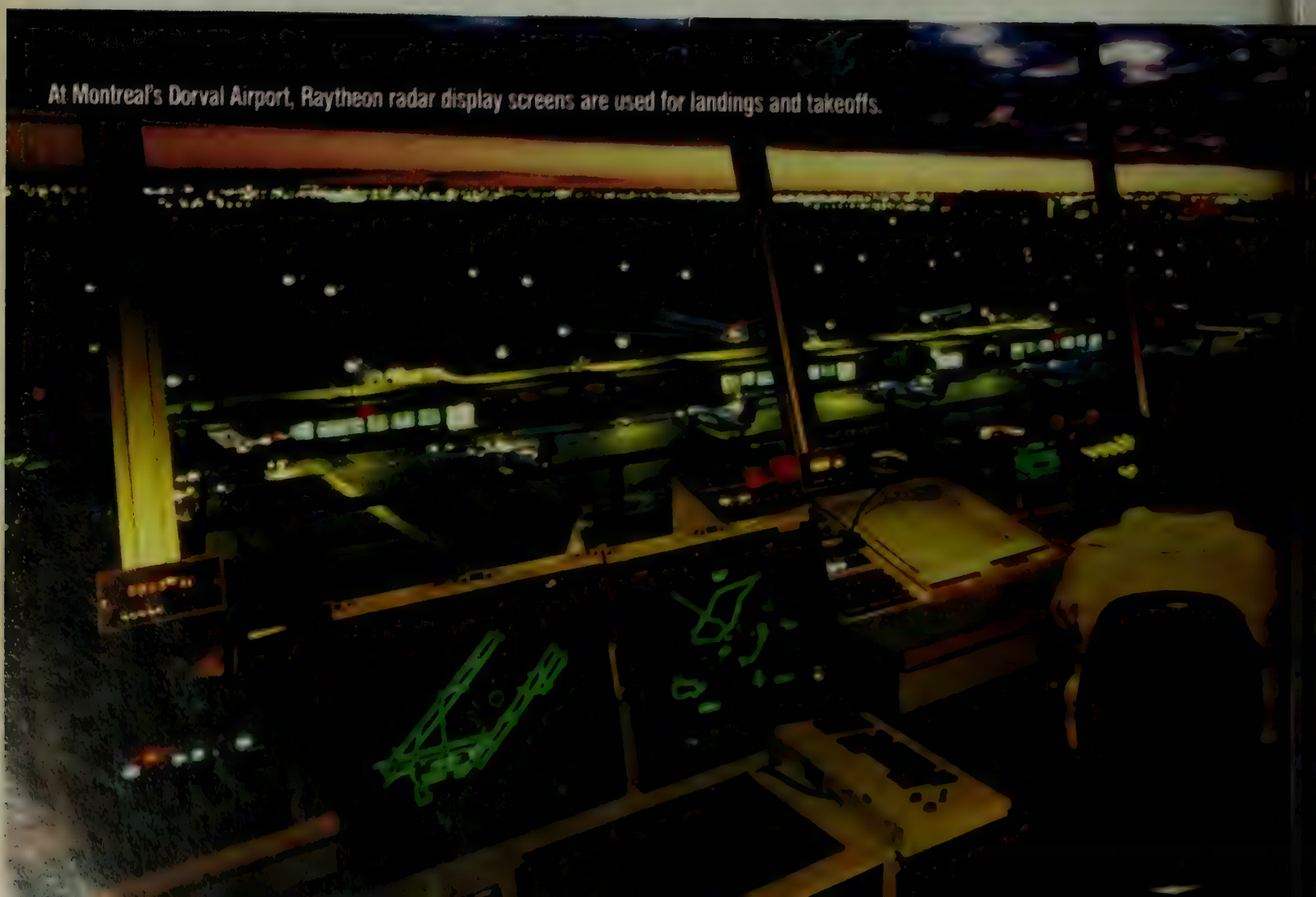

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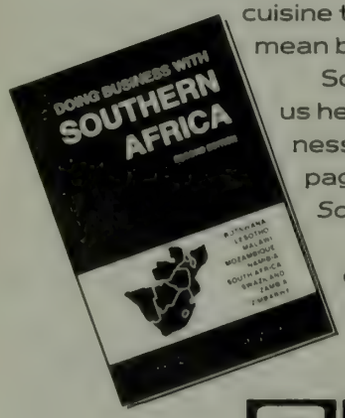

SAA
SOUTH AFRICAN AIRWAYS

reinstated criminal charges against Carbide managers that were dismissed in the original 1989 settlement. Former chairman Warren Anderson is unlikely to return to India to face trial.

–SUBRATA N. CHAKRAVARTY

But will it travel?

BRENHAM, Tex.-based Blue Bell ice cream, now the U.S.' third-biggest brand, may be Texas' favorite, but will Mexican and Japanese consumers feel the same way about it?

Privately owned Blue Bell Creameries *(Jan. 22, 1990)* will do $200 million in sales this year and is looking for new markets. Chairman Edward Kruse likes Mexico and Japan, which together consumed 286 million gallons of ice cream last year (the U.S. consumed 1.4 billion gallons).

South of the Rio Grande, Paletas

Blue Bell's Kruse (right) and team

Can Mexicans afford his ice cream?

Manhattan, a Guadalajara-based purveyor of frozen fruit bars, plans to sell Blue Bell through its chain of roughly 450 ice cream parlors. A one-scoop Blue Bell cone will sell in Mexico for $1.15, more than two hours' minimum wage. But, says Kruse, "the top 10% of [Mexico's] population is still a big market for us."

In Japan, Kruse has had a trade skirmish. Last month he found that Ezaki Glico, a firm he'd previously held talks with, had registered Blue Bell's trademark without permission. After Texas Senator Lloyd Bentsen complained on Kruse's behalf to the U.S. Trade Representative, Ezaki Glico retreated. Kruse is now talking with another Japanese company, Fujisan, about distributing the brand in that potentially tasty market.

–TONI MACK

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The perils of promotion

WHY DID Dennis Levine, the insider trader turned author, end the promotional tour for his book *Inside Out* so abruptly late last month? It seems he couldn't take the heat.

One particularly hot stop was an hour-long interview with radio veteran Chuck Ashman on KBLA, the influential, 24-hour, Los Angeles business news station. Trouble was, just days before the KBLA interview, *60 Minutes* revealed that the supposedly reformed ex-con, now a "business consultant," was introducing businessmen in need of funding to shadowy Caribbean corporations and ex-convicts parading as potential lenders. Levine's fee: $10,000 to $25,000.

Topic A on Ashman's show was Levine's new career. Ashman says, "Levine swaggered in like John Gotti, a little too mellow, a little too friendly, wearing a little too much gold." Ashman went after Levine with some tough questions; a FORBES editor invited to join the show asked some more pointed questions about Levine's shady dealings, past and present. Levine slumped in his chair; his publicist twitched.

Show over, Levine headed for the door. But waiting outside were two Melvin Belli lawyers who had flown in from San Francisco to serve him with a $20.4 million lawsuit. The suit, brought by unhappy Levine clients, alleges that the former Drexel banker and his cohorts bilked them out of $400,000 in fees. Levine looked for an escape route to avoid being served, but there was none.

Levine skulked home to New York. The book, Los Angeles bookstore managers say, is a bust.

–GRETCHEN MORGENSON

What's another million or two?

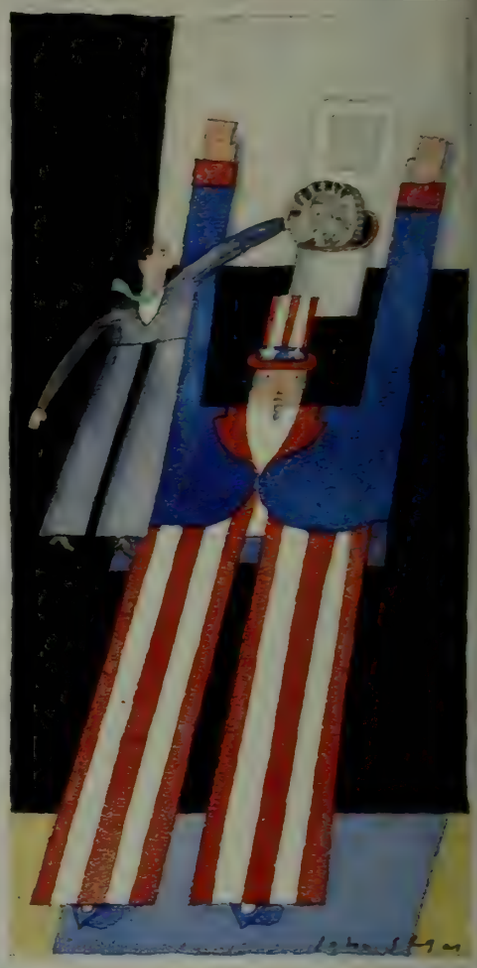
TIME WARNER shareholders are still paying for the botched rights offering in June. Last month the company informed shareholders that the legal bill for the proposed settlement of class action suits challenging the offering was $2.5 million. It's to be shared by the law firms that represented plaintiffs against Time Warner. Not bad pay for about a month's work, which is how long it took from when the suits were filed until Warner revised its rights offering.

–LISA GUBERNICK

Crummey loophole

THE ESTATE OF Maria Cristofani has beaten the IRS in Tax Court and opened a new and wondrous loophole in gift and estate taxes. It opens wide the normal exclusion, which allows a donor to give $10,000 a year to anyone, tax free. Using this rule, a couple with, say, three married children and six grandchildren could move $240,000 out of their estates per year—a convenient planning technique. The rules require that the gift must go to each person. The child's portion can't go to a parent to use on a child's behalf.

The Cristofani twist was to use what's called a Crummey trust. Into



this she put $10,000 for each of her two children and her five grandchildren. But the Crummey trust gives the grandchildren just 15 days to withdraw their $10,000. If that deadline is missed, the money then goes to the grandkids' parents. In Cristofani's case, the deadline was missed and the $50,000 she had given as a gift to her grandchildren reverted, gift tax free, to their parents.

"This is a way to leverage the $10,000 exclusion and still avoid gift tax," says David Roehr of the accounting firm Grant Thornton in Lincoln, Nebr. Obviously, says Roehr, it's so large a loophole that the IRS will work hard to plug it quickly. There's no guarantee that the Tax Court will in future cases rule as it did in Cristofani's. But for aggressive risk-takers it's a case worth considering.

–LAURA SAUNDERS

No escape from a $20.4 million lawsuit for Dennis Levine

Poor Judd

JUDD MALKIN, the "M" in Chicago's JMB Realty, had hoped Illinois politicians would bail him out in his 18-month divorce battle with wife Jeanne. Earlier this year the Illinois

legislature revised the state's divorce law, reinforcing the court's right to compensate spouses for appreciation in nonmarital property, like Judd's extensive real estate holdings. Judd hired a lobbyist to get that law amended to limit a spouse's compensation to the equivalent of a reasonable salary.

Judd's amendment passed as a rider to an unrelated bill. But last month it was vetoed by Illinois Governor Jim Edgar, who said, "this change unfairly limits the court." The governor also objected to the amendment as special legislation designed to benefit one party in a pending dissolution action. But to appear to be fair, Edgar also vetoed the original divorce bill. Still, since existing law favors Jeanne, Judd loses.

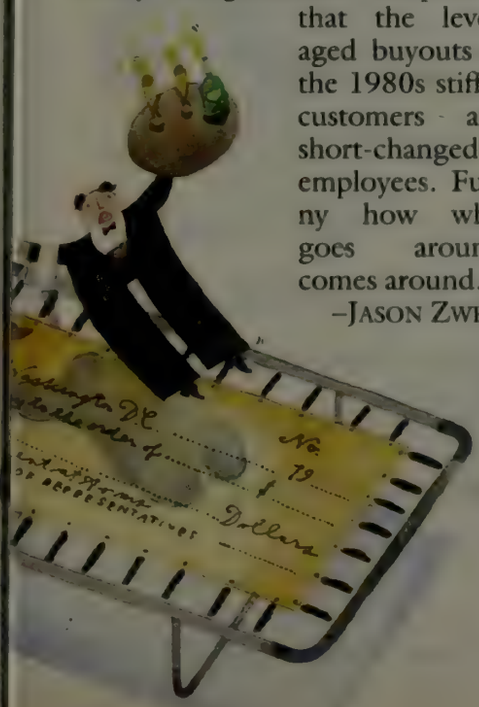
–MARCIA BERSS

Who's stiffing whom?

RECENT revelations that congressmen have been bouncing and kiting checks and not paying their Hill restaurant bills brought no smiles at Service America Corp., the Stamford, Conn.-based caterer that operated the restaurant through August and is owed $200,000 by various members of Congress. Service America recently finished a yearlong struggle to restructure its debt. The overleveraged outfit, which was taken private in 1987 for some $450 million by management and the investment bank Morgan Lewis Githens & Ahn, owed nearly $400 million to creditors like General Electric Capital Corp.

Many congressmen complained that the leveraged buyouts of the 1980s stiffed customers and short-changed employees. Funny how what goes around, comes around.

–JASON ZWEIG



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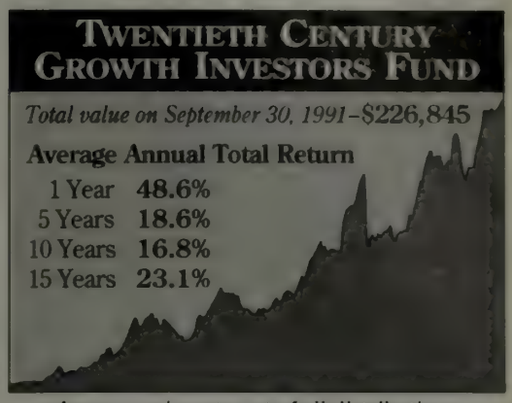

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Brand new

SIR: In "The trend is not their friend," *(Sept. 16)* FORBES questions the future value of branding. Store chains have begun manufacturing better products and packaging them more attractively. They have marketed themselves to the consumer in such a way that the store and its products are, in effect, becoming brands!
–JOHN F. STUART
Black Rock, Conn.

Paki bashing

SIR: Re your editorial on "Paki bashing" *(Fact and Comment, Sept. 2)*. Development of Pakistan's nuclear research program, which is still far behind many other countries such as India, could be easily discontinued if India stops its threats to the survival of Pakistan, opens its nuclear program for international inspections and stops its war equipment development program.
–FIAZ A. CHOUDHRI
Niskayuna, N.Y.

Wanted: patent examiners

SIR: I was deeply concerned by the article "Whose invention is it anyway?" *(Aug. 19)*. This year the U.S. Patent & Trademark Office will receive over 165,000 patent applications and issue approximately 95,000 patents. We have not "let the quality of examination slide." In fact, the quality of the patents issued is generally high. As you note, however, we do need to further increase the quality. We need to hire and retain more qualified examiners, particularly in several areas of technology. We have asked Congress for the resources to accomplish these goals.
–HARRY F. MANBECK JR.
Assistant Secretary and Commissioner of Patents & Trademarks
United States Department of Commerce
Washington, D.C.

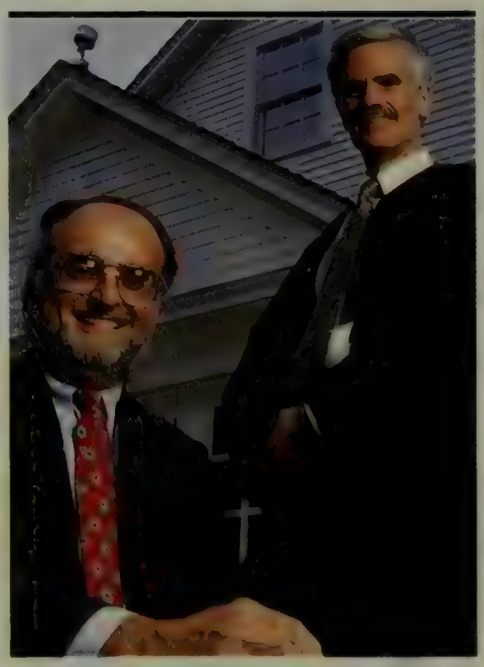
Food or drug?

SIR: Re "Killer acids" *(Sept. 2)*. The big question is why it takes dead bodies before the Food & Drug Administration takes enforcement action against supplement manufacturers who make outrageous and unfounded health claims. The L-tryptophan disaster could have, and should have, been avoided. The fact that the FDA *chooses* to treat dietary supplements as foods, despite the fact that the only reason people take them is for their "perceived" medical use, defies explanation.
–ABBEY S. MEYERS
Executive Director
National Organization for Rare Disorders, Inc.
New Fairfield, Conn.

SIR: Studies have concluded that it was not tryptophan but a contaminant contained in a few batches produced by a single Japanese manufacturer that caused the EMS outbreak. But the FDA is using the tryptophan incident as an excuse to increase its regulatory powers over all amino acids. [David] Kessler is a power freak.
–DURK PEARSON and SANDY SHAW
Los Angeles, Calif.

Praying for profits

SIR: Re your article on Dennis Knight's church becoming a limited partner in Gordon Rollert's money management business ("God bites mammon," *Sept. 30*). Quite by accident, or maybe by design, the photographer captured the cross between Rollert and Knight in the picture.
–DOROTHY CHRISTIAN
Columbus, Ind.


Michael Carroll

Recession relief

SIR: Re "The little engine that can't" *(Sept. 16)*. FORBES' perspective is that our weakened housing industry cannot pull us out of recession. In California, the housing industry could play that role—if federal regulations permitted. The complex ramifications of California's Environmental Quality Act have created a building approval process which can drag on for years, creating prices which spiral into economic disaster for builders and would-be homeowners. But the most critical element in this formula for failure is the credit crunch, which blocks builder access to capital.
–MICHAEL A. HACKARD
Sacramento, Calif.

SIR: Real estate and the economy both will recover if the tax incentives lost in 1986 are restored. But I am afraid we will have to wait until after 1992 because tax reform will be seen as a giveaway to the rich, so few in Congress will support it before an election.
–BRUCE W. BALLENGER
Real Estate Consulting Group
Coopers & Lybrand
Los Angeles, Calif.

Standardize policies

SIR: Although a consumer-oriented approach to the purchase of health insurance *(Fact and Comment, Sept. 2)* has undeniable appeal from a free-market perspective, I wonder how viable it is on a practical level. The bewildering array of available policies makes intelligent comparisons nearly impossible. Perhaps the answer lies in mandating standard policies.
–JOHN S. VILLANOVA
Stamford, Conn.

Not for nothing

SIR: Re your article on Blenheim Group PLC ("The exhibition industry: a well-kept secret," *Sept. 30*). *Bobbin* is not a controlled-circulation trade magazine. As a matter of fact, it is the only all-paid magazine in our industry. The magazine spawned the trade show, not the other way around.
–MANUEL GAFTAN
President/Chief Executive Officer
Bobbin Blenheim Inc.
Columbia, S.C.

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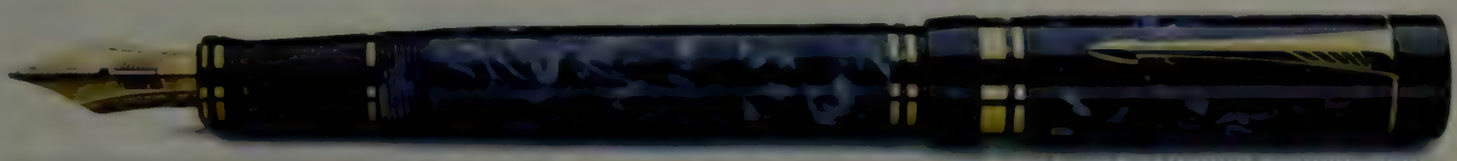

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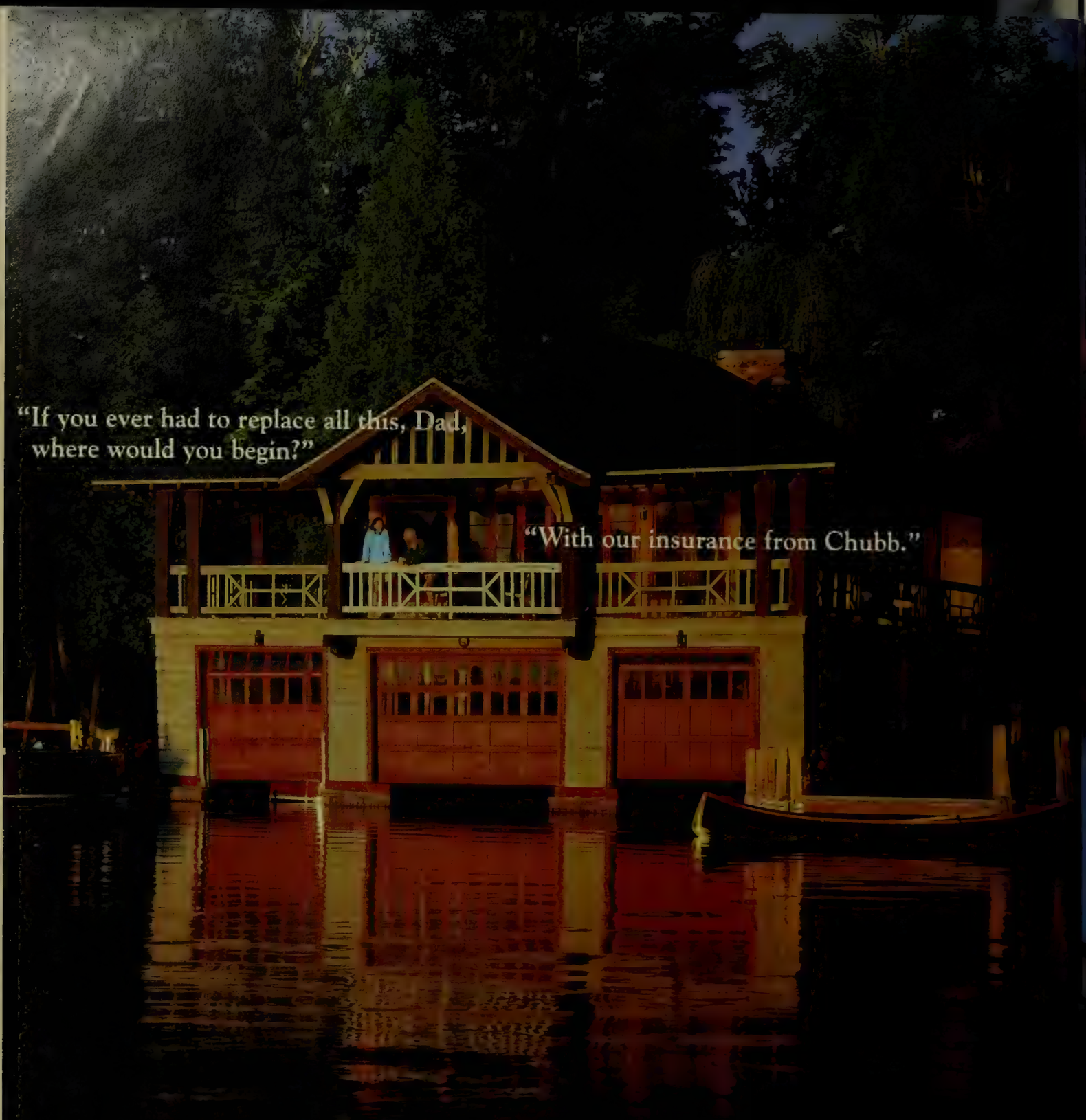

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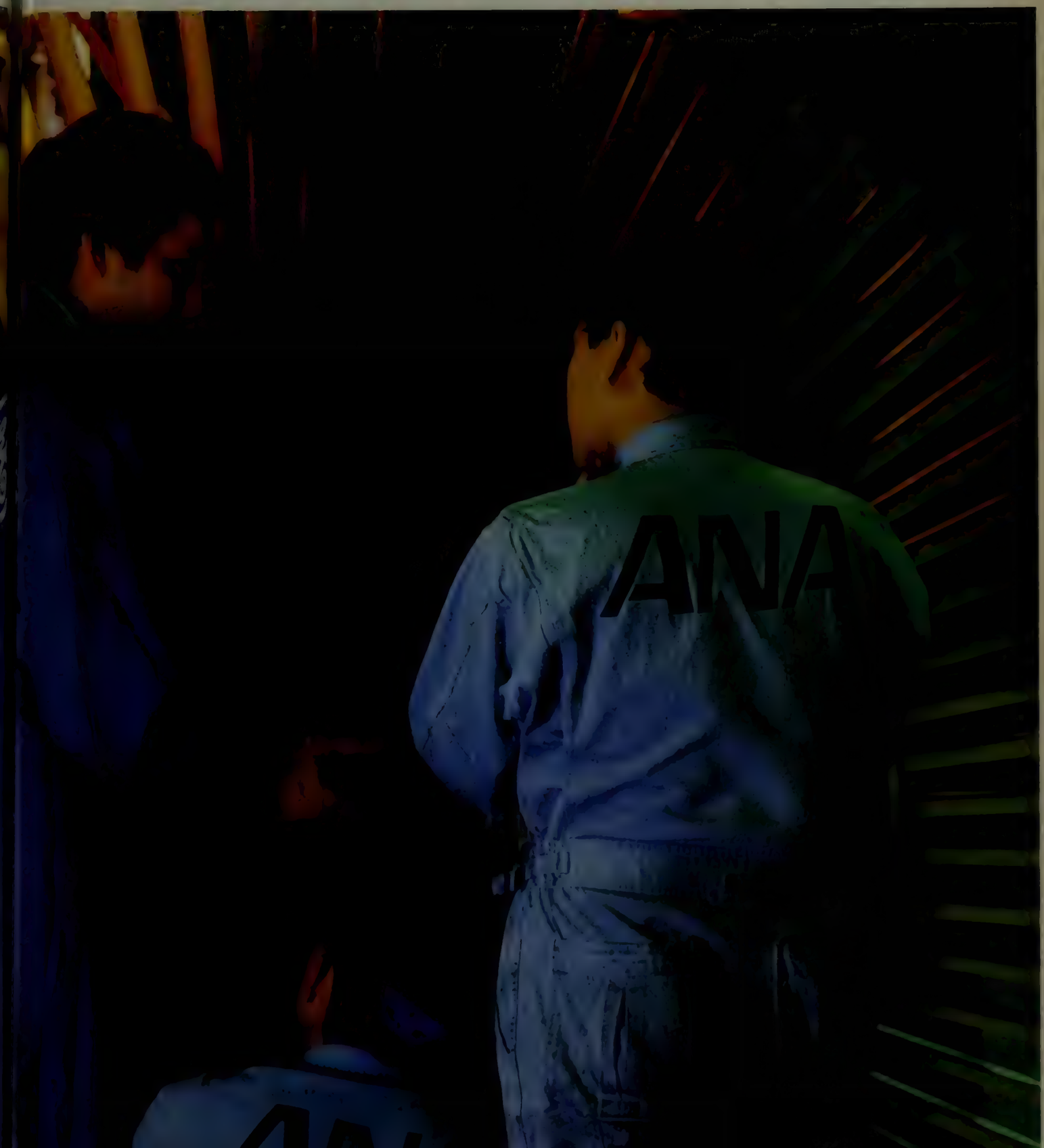

Other Comments

Strikes in His Future

CHICAGO CUB outfielder Andre Dawson recently paid a $1,000 fine for disputing a strike call by umpire Joe West. On the memo line of his check Dawson wrote, "Donation for the blind."
–*Sports Illustrated*

More Lion than Bull

MIKHAIL GORBACHEV is a short, stocky, nearly bald man with a large purple birthmark on his forehead, which, in anyone else, would be considered an unsightly blemish. But that had not prevented millions of people from considering Gorbachev not merely wise or good, or even a great man, but a figure of compelling attractiveness.

As for Yeltsin, he'd been the oaf, the buffoon, the spoiler, the bull in the china shop. But I can report [that] physically he is very very presidential. Well over six feet, Yeltsin commands a room just by walking into it. He's athletic, not flabby, and physically graceful, not bumbling. Yeltsin has a deep, gravelly, distinctive voice which is both intimate and authoritative.

"What about Gorbachev," [I asked him.] "Do you like him? Do you hate him? Can you work with him?"

"You must never mix up your personal feelings with your professional relations when you're in a position like mine," Yeltsin said, "because the future of the country is at stake and is of higher importance than personal feelings."
–T.D. ALLMAN,
Vanity Fair

20% Is Waiting

SHOWING up is eighty percent of life.
–WOODY ALLEN,
The Quotable Quote Book
by Merrit Malloy and
Shauna Sorensen

The U.S. or Heaven

HARRISON SALISBURY, visiting Albania some 30 years ago for the *New York Times*, commented somewhat apocryphally that "Albania is rushing into the 14th century." Today, Albania is slowly breaking out of its prison. The press cries to be free—even journalists working for State journalism and radio yearn to be independent. Help here can go a long way. And it is mainly to the U.S. that editors and broadcasters are looking for this help. In the words of one prominent editor, not long out of internment as a political prisoner: "If you Americans cannot help us, then we can only hope that God will provide for us."
–MARVIN STONE,
International Media Fund

Stick with Stability

DEMOCRATS are wrong to blame their losses on candidates' weaknesses or the opposition's image-making trickery. The reason they keep losing is that here, as in other democracies, most voters don't switch parties unless things go dreadfully wrong and unless the party in power fails to provide the first thing citizens demand from democratic government: the order and stability that give people room to lead their personal lives.
–MICHAEL BARONE,
U.S. News & World Report

It is time I stepped aside for a less experienced and less able man.
–PROF. SCOTT ELLEDGE,
on his retirement from
Cornell University

Third Avenue Royalty

OUT FOR A walk one day with his grandmother, whose native tongue was German, the New Yorker, then a child, was suddenly impelled to ask her what a notary public was. Grandma thought for a minute and then responded, "It is a kingdom."

While not exactly satisfactory, the answer did stimulate the youthful imagination. Hidden somewhere inside each cigar and stationery store, he reasoned, there must be a man with a little crown on the back of his head, smoking a cigar and ruling over whatever kings rule over when their domain consists of a stationery store.

One day, enlightenment came in a flash. "I suddenly realized that she thought I was asking her, 'What is not a republic?' and she quite reasonably answered that what is not a republic is a kingdom."
–*New York Times*

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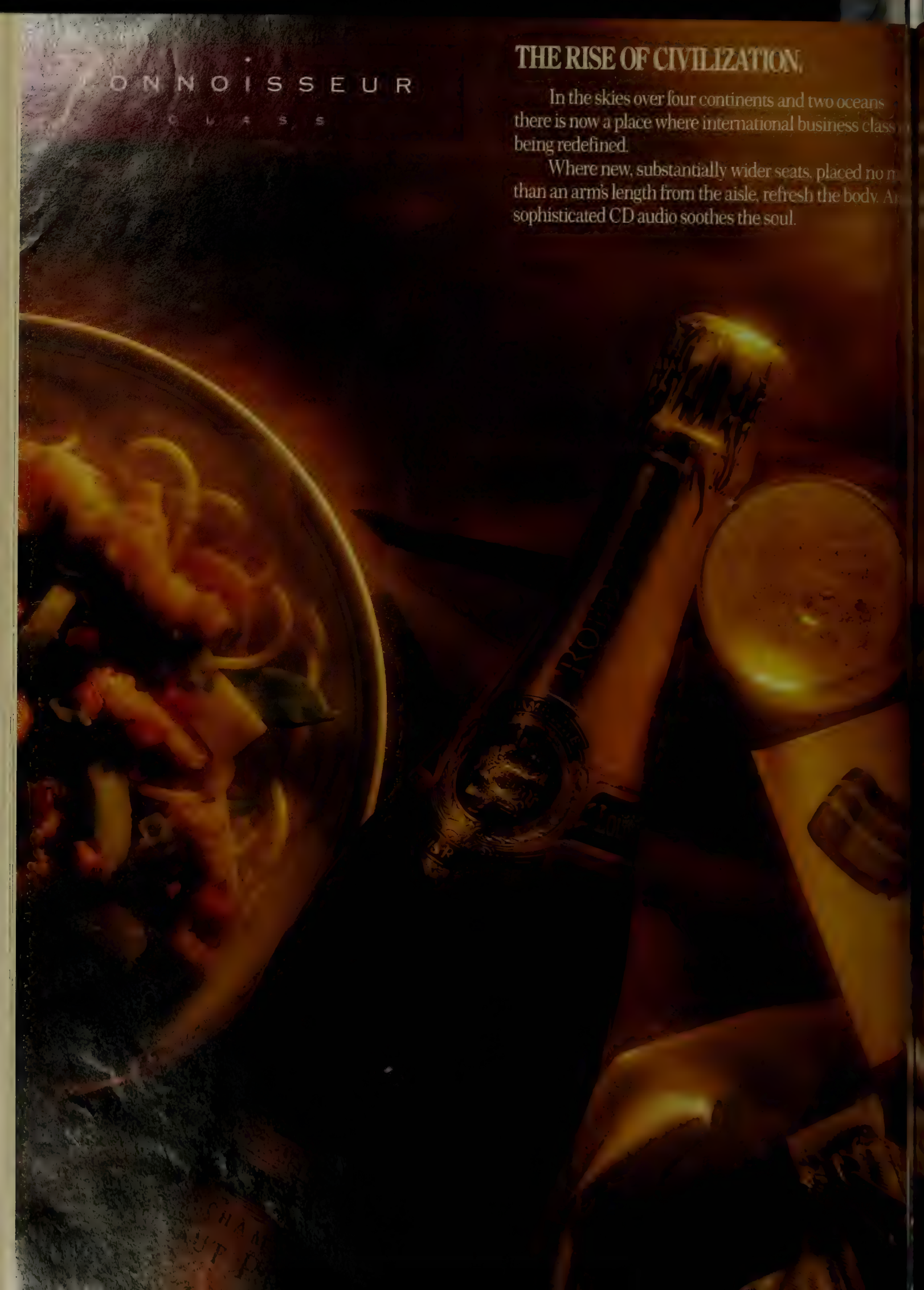
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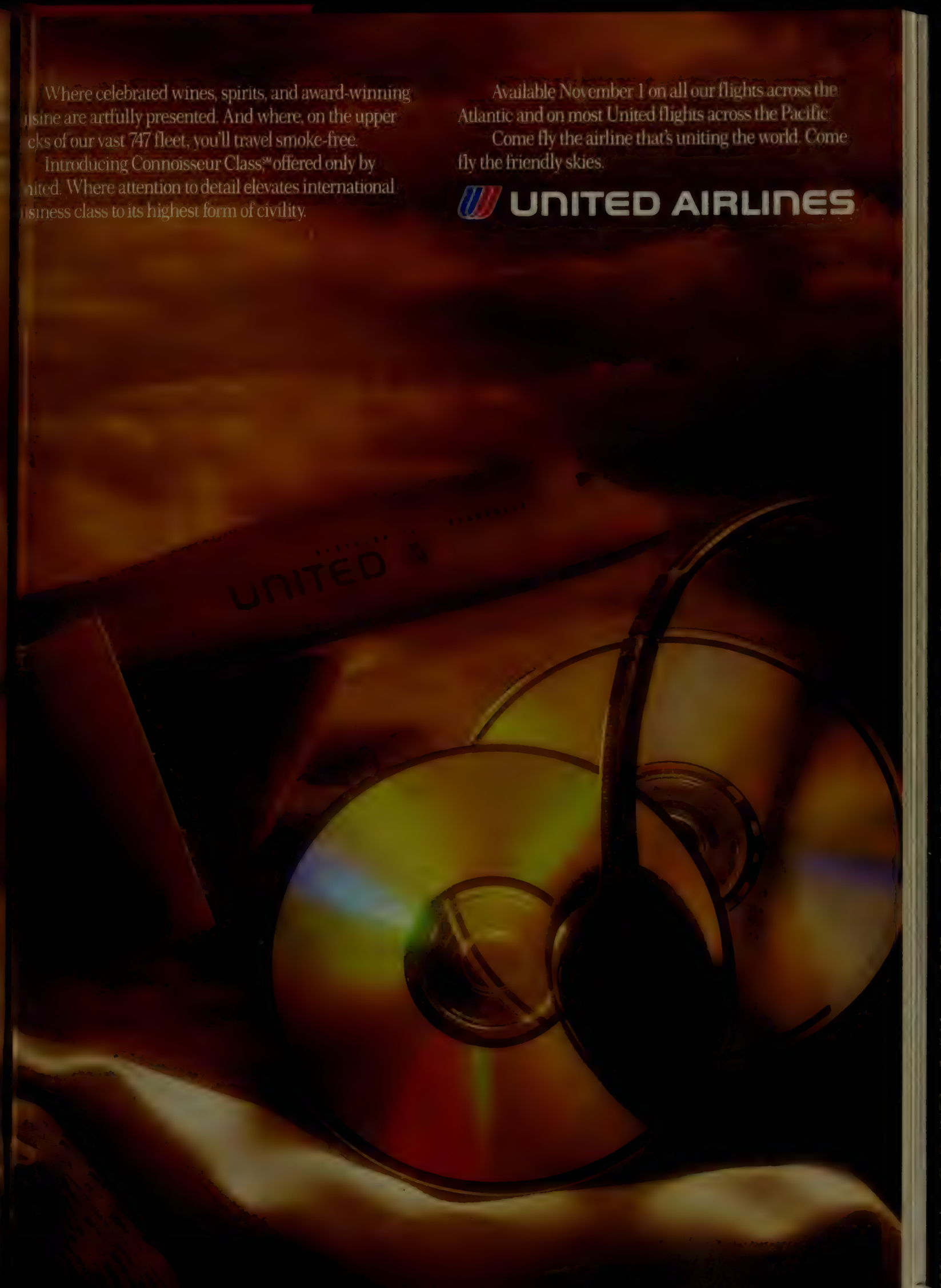

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Commentary

on events at home and abroad

By Caspar W. Weinberger, *Publisher*

TAIWAN'S ROSY FUTURE

IT WAS 1979 when the U.S. cut its formal ties with Taiwan as part of our establishing diplomatic relations with mainland China. It seems clear now, with the benefit of 12 years' hindsight, that that was a serious policy error. President Carter's goal was of course to open a dialog with the People's Republic of China after President Nixon had made the first overtures some years earlier.

No one can quarrel with the idea of our improving what was a nonexistent relationship with one of the largest countries on earth. But we paid an unnecessarily heavy price: We did not have to give in to the PRC's demand that we so weaken our ties with Taiwan. Many in Congress agreed, and the Taiwan Relations Act, passed later, was an attempt to define how we could keep on speaking to Taiwan even though we had formally recognized the PRC and its claim to be the only China.

A strong Taiwan grows even stronger.

We did downgrade all meetings and discussions with the Republic of China, all with the idea of not offending the mainland. Thus American cabinet officers were prohibited from visiting Taiwan, and official meetings in this country with Taiwan could be attended only by medium- and lower-level officials.

The rationale for all of these artificial restrictions collapsed with Tiananmen Square. It became evident then that all of our careful work both with the mainland military and officials, designed to help Deng Xiaoping move China away from its fierce ideological attachment to doctrinaire Marxism, had come to naught.

Meanwhile, unofficial organizations whose goal has been to help Taiwan and its people, such as the USA-ROC Economic Council (the requirement of full disclosure leads me to state that I am the U.S. chairman of this group), engaged in active trade discussions and supported the interests of Americans seeking to do business in Taiwan. But they were always limited by the rules that forbade upper-level government participation.

Last month in Salt Lake City, when the Joint Councils of the USA-ROC met, a major breakthrough was achieved. Two American cabinet officers attended, publicly and visibly, and made excellent presentations. And not a moment too soon either. For Taiwan is embarking on one of the largest civil projects in modern times, a $300 billion six-year development plan.

Other countries such as France, Germany and England have long sent cabinet officers to visit Taiwan without impairing their relations with the PRC. Now that contracts are about to be awarded for vast amounts of work, it's only logical for the U.S. to become as actively involved with Taiwanese officials as any other country, and to make major efforts to help them complete this huge development plan. About $100 billion in work will be open to foreign bidding, which will make Taiwan the world's largest market for major construction projects.

In the first year, rapid transit, highways and a high-speed railway will be started, and in subsequent years some 775 other economic and cultural projects will begin or be completed. These include nine power plants and Taiwan's fourth nuclear plant, housing and urban development and an extensive medicare network. Taiwan will also purchase pollution control equipment, computers, laboratory and scientific instruments, telecommunications, medical equipment, autos and parts, and aerospace and aviation equipment.

Both officials and the people of Taiwan are very kindly disposed to the U.S. and desire a closer and warmer relationship. We have a great deal to lose if we do not abandon our outmoded and artificial restraints on our relations with the ROC. It seems clearly impossible to get a kinder, gentler PRC until the present generation of elderly leadership is changed.

In any event, we should recognize Taiwan for what it is: a strong society that never looked back and has never had a lower GNP from one year to the next since the island was transformed by Chiang Kai-shek from a sleepy agricultural economy. This new development plan will raise the per capita GNP from $8,000 in 1990 to $14,000 in 1996. That and the other vital statistics place Taiwan far ahead of its gigantic neighbor—a nation condemned to economic failure by its slavish adherence to rigid ideological communism and socialist economics. ■

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Has John Major saved GATT?

BRITISH PRIME MINISTER JOHN MAJOR expects an end soon to the long-running trade dispute between the U.S. and the European Community over agricultural protection and subsidies. "Europe will have to be more forthcoming," Major told some American reporters recently. If it were ended, the way would be cleared for a successful conclusion to the Uruguay Round of GATT within six months.

Major says he has already won over Helmut Kohl, the German Chancellor. With Kohl's support, and by using more diplomatic skills than Margaret Thatcher, Major hints that even the French are beginning to see sense. Major, says one senior U.S. trade negotiator, is now being "hailed as the savior of the GATT round."

The U.S., led by U.S. Trade Representative Carla Hills, will not get all it wanted out of the Europeans on farm subsidies. The EC will not agree, for instance, to go as far as scrapping 75% of its farm payouts by the end of the decade, as the U.S. wants. But the Europeans might agree to cutting subsidies by 30% to 35%. The U.S., in turn, would loosen its restrictions on the import of dairy products and sugar.

It is economic pressure that is forcing the EC—and the French—to go along with the farm policy reform being proposed by EC agriculture commissioner Ray MacSharry. The combination this year of good harvests and a lower dollar hitting European farm exports has increased Europe's farm support payments to $40 billion, up from $34 billion in 1990.

The importance for U.S. business of a successful outcome to the GATT negotiations will be opening up trade in areas like financial services. The new GATT deal should, for example, open Japan to allow American accountants to obtain auditing work in that country. Even with restrictions, the U.S.' services exports now run $8 billion a month.

The U.S. will also benefit from improved protection for intellectual property, such as patents and copyrights. This will help not only software and entertainment companies but also pharmaceutical firms like Merck and Lilly, whose patents have been routinely violated in developing countries.

The breakthrough in the farm talks is expected sometime before mid-November. That will be followed by the final, detailed negotiations, which should be completed early in 1992. U.S. congressmen from textile states are already lining up to oppose U.S. approval. But, says Harry Freeman, who heads the leading free trade coalition of 15,000 U.S. companies, "Congress will pass it in the knowledge that, with economic growth slowing in all major economies, the GATT agreement could provide a very crucial boost for the U.S. economy."

In a lackluster economy, no one wants to be known as the Reed Smoot or Willis Hawley of the early 1990s. —PETER FUHRMAN

Sneak attacks on Mexico

DEMOCRATS, EAGER TO PLAY ON environmentalists' and unions' fears about the impact of a free trade agreement with Mexico, have hit on a new line of attack: U.S. securities laws.

House Majority Leader Richard Gephardt (D–Mo.) is busily working up legislation that, he says, will allow stockholders to sue a U.S. company for opening itself up to "potential liability" by violating foreign labor or environmental standards. "We'll help Mexico enforce [its laws]," says Gephardt. Translation: Let's make it as difficult as possible for U.S. companies to invest in the booming Latin economy.

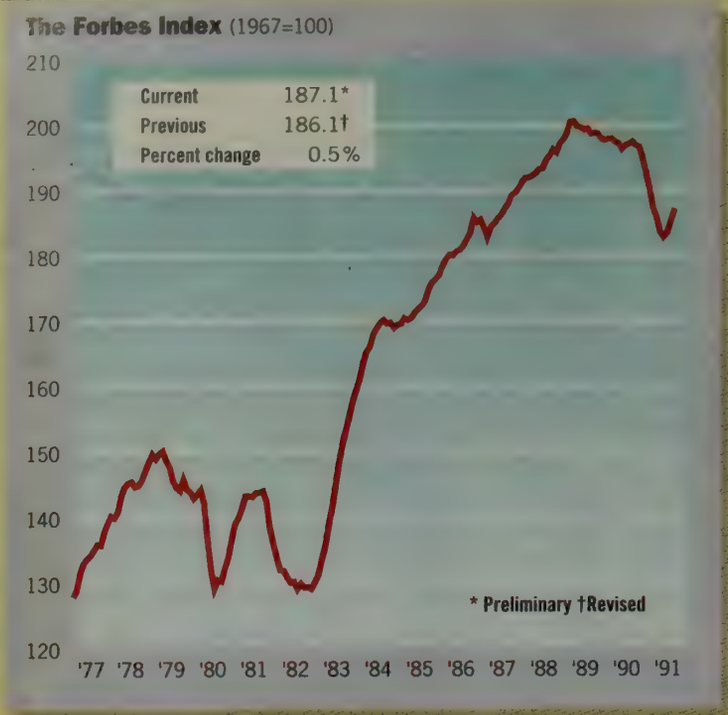
Gephardt adds that his proposed bill would be modeled after the Sullivan principles, which required U.S. companies "to act as catalysts for change overseas." Not surprisingly, Gephardt's proposal has received a cool reception from the Bush trade office, and from Mexican officials, who apparently don't feel they need Gephardt to help them police their laws.

Operating on a parallel tack, Representative Ron Wyden (D–Ore.) has drafted a bill that would force public companies to disclose how many employees they have in each country and what they produced there for each of the past five years. Wyden's idea is to allow shareholder and other activists to monitor whether companies are moving plants to Mexico and other countries. The activists have targeted the maquiladora plants along the border.

C. Fred Bergsten, director of the Institute for International Economics, says "it would be a mistake to try unilaterally to dictate standards" through the U.S. courts. In any case, he says, more foreign investment and free trade will strengthen the Mexican economy and so allow that country to spend more on the environment. Unlike Gephardt, Bergsten understands geese must first be nourished before they lay golden eggs. —JANET NOVACK

THE FORBES INDEX

BY TIMOTHY DODMAN



With growing deficits at the federal, state and local levels, politicians have been reluctant to cut taxes in order to spur growth. In fact, higher taxes at all three levels are helping to put a drag on consumer outlays. For the eight months through August of this year, real personal spending increased a scant 0.9%. Cost-cutting state and local governments have eliminated 87,000 jobs in the last four months, but the private sector has been expanding: Nonfarm payrolls grew by 24,000 in September. The unemployment rate fell to 6.7% from 6.8%.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.0%
Auto sales year to date vs 1990[1]	Ward's Automotive	-11.6%
Index of leading indicators Aug vs July	Dept of Commerce	0.0%
Trade balance 12 months ended July 1991	Dept of Commerce	-$81 bil
All-commodity producer price index Aug vs July[2]	Dept of Labor	0.3%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	-0.5%
M2 (3-month change)—annualized growth[3]	Federal Reserve	-0.1%

[1] U.S.-based manufacturers, excludes imports, as of 9/30/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

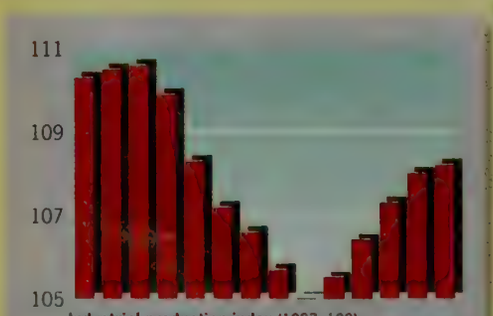
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

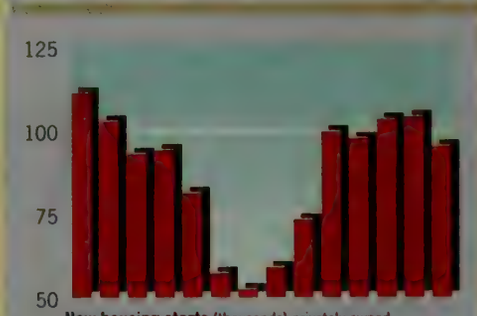
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

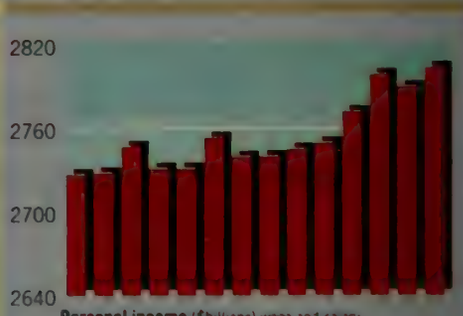
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



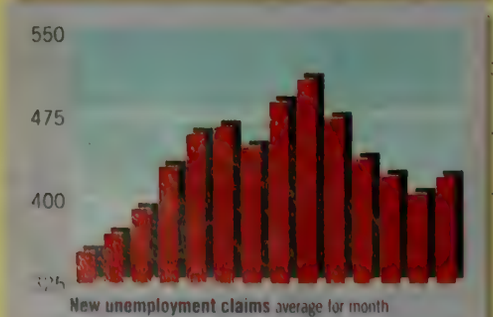
Industrial production index (1987=100) seasonally adjusted (Federal Reserve)



New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total seasonally adjusted (Federal Reserve)

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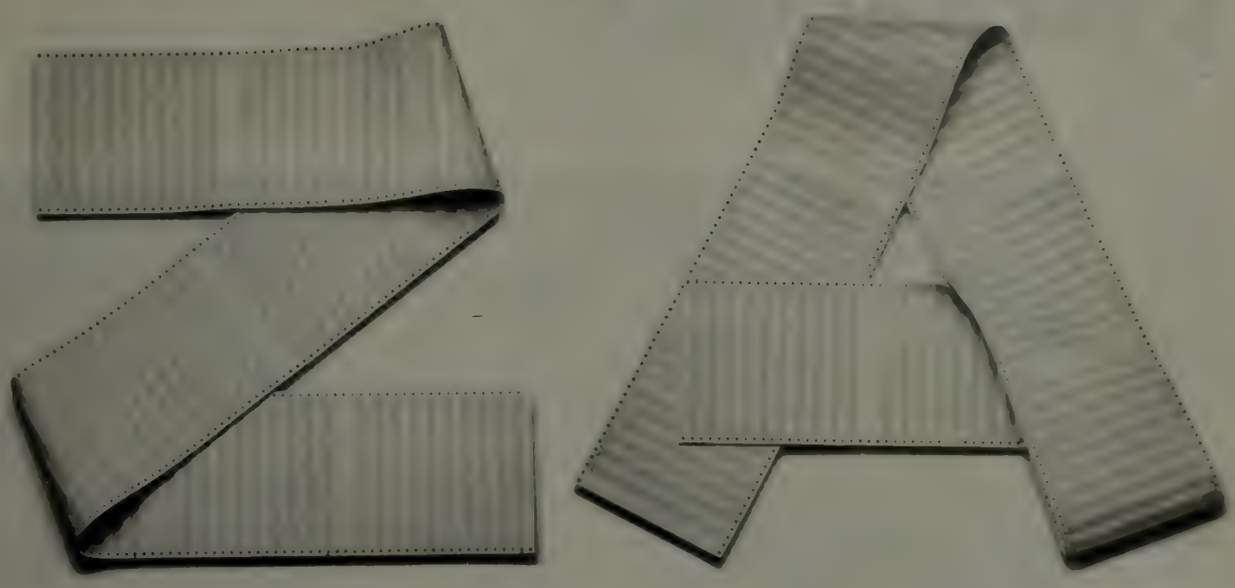
Who Covers Business Insurance From A to Z?



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After disappointing shareholders for ten years, giant timber products company Weyerhaeuser Co. is in the midst of yet another restructuring. Ho hum.

Rip Van Weyerhaeuser

By John H. Taylor

WHEN IT COMES to disappointing investors, Weyerhaeuser Co. wins some kind of prize. Consider:

Over the last five years the giant Tacoma, Wash.-based forest products company ranked dead last in the industry on return on equity and was only a couple of notches from the bottom in earnings-per-share growth. Its $9 billion in revenues produced scant profits. Last year its net profit margin of 4.4% was dwarfed by Potlatch's 7.9% and by Temple-Inland's 12.3%.

This year has been even worse. In the first half, the company made $122 million, 61 cents a share, on sales of $4.3 billion, for a puny net margin of 2.7%. That's a 50% earnings drop from last year's not-so-hot first half.

Yet Weyerhaeuser owns one of the industry's great assets: more than 5.5 million acres of prime timberland, one of the world's largest and most valuable holdings. Much of it was acquired by founder Frederick Weyerhaeuser, who bought it for $6.50 an acre in 1900. Today the company's timber is worth more than $1,000 an acre. Analysts estimate the company's trees alone are worth $30 a share, which is more than the recent stock price of 26⅞.

There are the usual excuses. Weyerhaeuser generates most of its profits from turning its trees into paper, and the paper business is mired in its worst slump since 1985. But that problem afflicts the entire forest products industry. Weyerhaeuser has problems of its own, rooted in a management philosophy directed at preserving assets rather than producing profits. It's a philosophy more suited to a family company than to a giant enterprise with more than 28,000 shareholders. But then Weyerhaeuser is in many ways a family company. Descendants of the founder control 10% of the stock directly and as much as another 20% through various trusts. This minimizes outside pressures for performance on management.

The company is structured in ways that once made sense but no longer do. For example, gains on timber sales were formerly taxed at the capital gains rate rather than as straight income from paper, paneling and other finished products. So Weyerhaeuser emphasized sales of raw logs rather than finished products. Mill managers' incentives were based on how much wood they could push out rather than how profitable the end products were. That saved on taxes but didn't do much for the bottom line.

However, competitors with far less impressive timber resources—Georgia-Pacific, Union Camp and Louisiana-Pacific, for example—pursued the opposite strategy: maximizing profitability of the end products. When the tax advantages for timber sales were eliminated in 1986, Weyerhaeuser was caught with mills that hadn't kept pace with the competition in efficiency and cost control.

Meanwhile, George Weyerhaeuser, longtime chairman and great-grandson of the founder, had launched an ill-fated diversification into insurance, home building, mortgage banking, garden products, pet supplies and disposable diapers. It contributed greatly to sales but not much to profits. In 1988 nonforest products businesses accounted for 30% of Weyerhaeuser's

Phil Schofield

$10 billion in revenues but only 7.5% of operating profits.

George Weyerhaeuser's reaction to criticism was to shrug it off. He rarely met with analysts during his 25-year reign. Bruce Kirk of S.G. Warburg cannot even recall seeing him at the biennial gathering of forest products analysts in the Pacific Northwest.

"You'd have a hell of a time finding a company that did worse in this industry over the last 20 years," complains Smith Barney's respected forest products analyst George Adler.

Change may finally be at hand. Weyerhaeuser, now 65, turned over the company's reins in July to his chosen successor, John Creighton Jr., 59. Creighton, one of the few nonfamily members to head the company in its 91-year history, is focusing on several key problems. He is overhauling the company's incentive system to reward each mill for profitability rather than how much product it manufactures. He is narrowing the company's product lines to concentrate on high-quality, higher-margin products like white papers or high-grade lumber. Creighton is also modernizing containerboard mills to increase production by 20% and slashing marketing costs in wood products. He is even maintaining regular ties to the financial community.

Creighton, a lawyer who earned a business degree at the University of Miami before joining Weyerhaeuser in 1970, has had the heads of each of Weyerhaeuser's businesses come up with a strategic plan, which he and the board will analyze. After that review, he will decide whether to sell large but marginally profitable divisions like real estate or financial services.

Too little, too late? Robert Chow is a money manager with Boston's Fidelity Management & Research,

Weyerhaeuser's sawmill near Longview, Wash. **Weyerhaeuser used to push log sales over finished products like lumber and paper. But when the tax breaks for timber sales were phased out, the company never recovered.**

which owns 1.8 million of Weyerhaeuser's 200 million outstanding shares. Sighs Chow: "I hope he comes through, but I'm not counting on it."

Certainly Creighton has some splendid opportunities. The company has properties that yield little in the way of current earnings but that could probably be sold for a good price, including its real estate division or some of its precious timberland. "I'd divest of the real estate division as quickly as possible," says Kathryn McAuley, an analyst with Brown Brothers Harriman. "It doesn't add anything." Although Weyerhaeuser owns some promising properties, including several residential developments outside Seattle, the fact is that real estate is a business best left to real estate people. Weyerhaeuser has had consistent trouble making much money with real estate. This division, whose sales totaled $811 million in 1990, lost $2 million before interest in the first half of 1991.

Creighton has made a few promising moves. He has hired the highly respected William Shields, former head of Willamette Industries' building materials operation. Shields is now in charge of improving Weyerhaeuser's lumber and plywood manufacturing operations. Hiring from outside was nearly taboo at Weyerhaeuser during the last decade.

George Haloulakos, an analyst with Dain Bosworth, estimates that by consolidating staff functions, improving efficiency and using more recycled fiber, Weyerhaeuser will increase pretax profits by 84 cents a share.

But change moves at a glacial pace in this company. On a recent trip to a Weyerhaeuser mill, one analyst noted far more employees per mill than most of Weyerhaeuser's more automated competitors have. Does Creighton have a free hand to reverse the stale old policies? Maybe not. George Weyerhaeuser remains chairman and has personally selected nearly every member of the board. Weyerhaeuser and Creighton declined to talk with FORBES for this story, citing among other things a negative story on the company that ran 13 years ago. Like an elephant, Weyerhaeuser never forgets. Like an elephant, it is also hard to turn around. ■

The turmoil in the thrift industry is creating enormous opportunities in the mortgage servicing business. The rewards are fairly obvious. Less so are the risks.

Every extra basis point can help

By Matthew Schifrin

JAMES TANG is a former astrophysicist who went into the parking lot business in 1981 and has since built his Houston-based Allright Auto Parks into one of the nation's largest parking lot companies. He is now invading the finance business.

In 1988 Tang tried to acquire a busted thrift from the Federal Savings & Loan Insurance Corp. Too much red tape. In nosing into that deal, however, he found something he liked even better.

Backed by some Hong Kong investors, he bought from the Resolution Trust Corp. the rights to service $7 billion in mortgages formerly serviced by Commonwealth Federal Savings Association, an insolvent Houston-based thrift. The price was $34 million. Says Tang, who is teaching himself the mortgage servicing business as he goes along: "We think it is a good opportunity."

And how. Every payment made on a residential mortgage includes a small percentage, usually around 0.4%, or 40 basis points, which goes for servicing the mortgage; that is, collecting the checks, making sure that the insurance and taxes are paid and passing the interest and amortization on to the institution that holds the mortgage.

This is big business. There is around $1 trillion in home mortgages currently outstanding. Servicing them generates around $4 billion a year in revenues. And it can be an extremely profitable business, with returns on equity typically running from 12% to 25%.

One reason that the business is so profitable is the float—the use of the money between the time taxes and insurance are due, usually quarterly or semi-annually, and the time a mortgage payer pays for them, which is monthly. A few states require a rebate of part of the interest earned on the float. The float can amount to as much as 1.5% on outstanding mortgage balances.

So on a $10 billion portfolio of mortgages the monthly float can amount to more than $150 million. Even at current Treasury bill rates, such a float would generate around $500,000 a month for the mortgage servicing company.

Small wonder that smart business people like Tang have been attracted to the business. So have General Electric Capital, Sid and Lee Bass, Goldman, Sachs, Cargill and Canadian investment firm Gordon Capital. Dozens of smaller private investors are pooling their money and also buying servicing rights.

More bidders are likely to emerge. The Resolution Trust Corp. has so far sold the servicing rights to some $130 billion in mortgages. At least another $50 billion remains to be sold, probably within the next 6 to 12 months.

Early bidders probably have solid

paper profits. On some low-quality portfolios, prices for servicing rights drop as low as one-quarter of 1% of the value of the mortgages—$2.5 million for a $1 billion portfolio. Prices of some high-quality portfolios run as high as 4.75%. Typically, though, today servicing rights go for a little over 1%, but this is still a fairly attractive price. Before the thrift crisis, servicing rights commonly commanded 2% and more of the underlying mortgage's face value.

The stock market has taken notice. The shares of Pasadena, Calif.'s Countrywide Credit Industries, which has aggressively built its mortgage servicing portfolio to about $16 billion, are up from 5⅜ a year ago to a recent 30. In the meantime, the company has floated two oversubscribed common stock offerings, raising $210 million.

Lomas Financial, now in Chapter 11, hopes to profit from the excitement. Lomas is spinning off its troubled real estate portfolio to equity holders and will retain the rights to service the mortgages on the spun-off properties. Recast as a mortgage servicing company, Lomas plans to issue new equity to creditors as part of its reorganization.

Lennar Corp., the big Miami-based home builder, is using mortgage servicing to cushion the home building downturn. Lennar has nearly doubled its mortgage servicing portfolio, to $3 billion, in the last year. Thanks, in part, to this, company earnings are up over 50% for the first nine months of this year.

Weyerhaeuser Co., the old-line lumber company *(see story, p. 38)*, is taking a somewhat similar approach. Donald Lange, Weyerhaeuser mortgage chief, says his company is selling off its $1.1 billion (assets) thrift but retaining its much more profitable mortgage servicing company, which services around $11 billion worth of mortgages.

Why don't the banks that issue the mortgages do their own servicing? Many of them do, but the financial regulators are making it more difficult, insisting that they back the mortgages they service with capital. This ties up capital that banks and thrifts need for other purposes.

Standard Federal Savings, of Gaithersburg, Md., found a neat way around the problem. Last summer it formed a limited partnership with the state of Montana to service its mortgages. Under this arrangement, Standard Federal can continue to increase its servicing portfolio off its balance sheet and dedicate its capital to expanding its other businesses.

Are the bank and thrift regulators being too hard-nosed? Not necessarily. Like any business, mortgage servicing has its risks as well as its rewards. With the rush to refinance existing mortgages at lower rates, the servicers could find that their mortgage portfolios shrink.

According to the Mortgage Bankers Association, refinancings were recently running at nearly 45% of current mortgage applications, as compared with a more typical 15% rate. To stay in business with these continuing drains on their portfolios, mortgage servicers must continue to buy new servicing rights. They must also automate their operations, so as to wring a few extra basis points.

Another risk: defaults, which are also on the rise. Many mortgages are the responsibility of the company that services them. These so-called recourse mortgages can leave the servicer on the hook for mortgages that go bad, even though the servicer didn't originate the loan.

Citicorp Mortgage Inc., the St. Louis-based subsidiary of Citicorp, and the largest mortgage service operator in the country, is finding this out the hard way. About 3.5% of Citicorp Mortgage's $57 billion conventional first mortgages portfolio is 90-day delinquent, compared with 1.6% industrywide.

Part of Citicorp Mortgage's problem is due to a program that offered loans to home buyers without much documentation. In August Citicorp announced that it was restructuring the mortgage operations and stopped offering the low documentation mortgages.

Because of the risks in the business, the banking authorities are anxious to make sure mortgage servicing is in strong hands. Says Federal National Mortgage Association Senior Vice President Robert Engelstad, "We are interested in doing [mortgage servicing] business with folks who are in it for the long haul, not just because the numbers are favorable today." ■

Volkswagen was the first European carmaker to crack the U.S. auto market. As other European makers of lower-priced cars pull out, VW signals its intention of staying the course.

In the long run you can't hide from competition

By Peter Fuhrman

1977 VW Rabbit
Later renamed the VW Golf.

1985 VW Golf
It's hard to see the difference from the earlier version.

1992 VW Golf A3
More slope to the front end, but not much else.

THERE ONCE were eight Western European cars in the low-to-mid-price range of the U.S. auto market. Gone are Fiat, Renault and the European subsidiaries of GM and Ford, among others. Only Germany's Volkswagen is left, since Britain's Sterling and France's Peugeot recently announced their exit from the U.S., because their sales have collapsed. European marques at the high-priced end of the market—Mercedes, BMW, Porsche, Jaguar, Volvo, Saab and the super-prestige cars—have fared slightly better than the volume sellers, but even so, their sales are down by almost a quarter so far this year. Overall, Europe's share of the U.S. car market is now just 4.1%, the lowest figure in three decades.

Now even VW is just about hanging on. In the mid-1960s, at its peak, VW was selling over 600,000 cars a year in the U.S.; this year it will be lucky to sell 100,000. In the first eight months of this year sales are down 30% from 1990. Of this dwindling number, fewer VWs come from Germany, and within two years virtually all VWs sold in the U.S. will likely come from plants in Mexico and Brazil.

The Europeans complain of a weak dollar, plus the cost of meeting U.S. regulations. Why, then, do the Japanese automakers seem to be able to surmount these same problems? The answer is that the Europeans' real problem isn't currency or regulation. It is productivity, quality and design.

It is not that the Europeans don't know how to make good cars; they certainly do. But they have little incentive to stay abreast of trends, since their domestic markets are highly pro-

tected. This protection has insulated European carmakers from the pain inflicted upon Detroit during the past decade by the Japanese. But it has lessened their need for more efficient manufacturing and more innovative designs in the lower-priced segments of the market.

"American [carmakers'] performance, under unrelenting pressure from the Japanese transplants, has improved dramatically," says Daniel Jones, a professor at the University of Cardiff in Wales. Jones, one of the authors of *The Machine that Changed the World*, the pioneering study into automobile manufacturing, adds: "But [protected] Europe, by contrast, has not yet begun to close the competitive gap."

Among Europe's larger automakers, it now takes an average of 50% more assembly hours to complete a car than at GM, Ford and Chrysler factories in the U.S., and 75% more hours than at Japanese-owned factories in the U.S. Defects are also much more common in popularly priced European cars. In the J.D. Power & Associates owner surveys, VW cars are ranked next-to-bottom among all volume makers.

The average European model cycle is 12 years. In the U.S. it is 7.5 years; in Japan, 4.5 years. Compare Europe's bestselling automobile, the Volkswagen Golf, with its rival, Honda's Civic, and the former comes across as a very low-tech car.

In the excruciatingly competitive U.S. market, sales of the $11,000 Golf this year will be fewer than 25,000, down from its peak of 215,000 in 1979. Honda expects that its brand-new Civic, also priced around $11,000, will sell significantly more next year than this year's 230,000 cars in the U.S., nearly ten times as many as the competing VW product. An option on the new Civic, to be assembled in Ohio, will be a gas-miserly VTEC-E engine that promises 50mpg in city driving.

There have been recent board-level discussions at Volkswagen about pulling out of the U.S. market. But Volkswagen is determined to stay. VW's U.S. management has just been replaced, with William J. Young taking over as president from Hans-Jorg Hungerland. Its headquarters staff is being cut 10% and will be moved to new facilities in Michigan. But as a signal of its determination to stay, VW has just opened a U.S. design studio in Simi Valley, Calif.

In hanging on here, VW senior management is showing long-range wisdom. Today in Europe, Japanese cars sell for more than they do in the U.S. This is a situation that exists only because the Europeans both levy duties on the Japanese and impose quotas on them. If this situation changes, VW will be the stronger for its exposure to the far rougher U.S. market.

Europe's carmakers have just pushed the European Community to limit Japanese car sales until 1999, including those made in Europe. This continues the 15 years of protection for Europe's carmakers and the 2 million workers directly employed in the industry. In the short run this will benefit Europe's car producers, but at a huge if hidden cost to European consumers as well as to the companies' own long-term ability to compete. In choosing to stay and fight it out in the U.S., Volkswagen has a message for other European carmakers. The message is: In the long run you can't hide from competition. ■

1973 Honda Civic
The original dumpy little number.

1984 Honda Civic DXHB
More streamlined, snazzier all around.

1992 Honda Civic VX Hatchback
Flared wheel arches, spoiler, air bags et al.

Walter Wriston wasn't so dumb to suggest that sovereign nations don't default on their debt.

Good news at last

By Laura Jereski

AFTER YEARS of nasty surprises from their insolvent Latin American government debtors, U.S. banks are finally getting some pleasant surprises. Sounder policies in Mexico, Argentina, Venezuela and some other Latin American countries have bolstered the value of those countries' billions of dollars in outstanding debt, easing the pressure on banks holding the loans to add to their reserves.

In the rapidly growing market for Third World paper, Brazil's sovereign debt now sells for 34 cents on the dollar, up from 24 cents in January. Argentina's debt trades at around 39 cents on the dollar, up from 20 cents. Even Peru, reeling under terrorism and unstable government, has seen its debt climb to 17 cents, up from 4 cents on the dollar in January.

Mexico has become such a good risk that its restructured obligations now yield just 10%, about in line with mid-grade U.S. corporate bonds.

For the New York money center banks that have been bushwhacked by bad real estate loans, the Latin debt news is a ray of sunlight.

How bright? It depends on how bravely the banks involved bit the bullet earlier by writing down their Latin loans. But don't look for immediate earnings gains, because the higher bond values will not flow through directly to earnings.

Take an example. Manufacturers Hanover Corp.'s survival once seemed threatened by its heavy load of loans to Latin and other poor nations. Manufacturers Hanover, now in the process of merging with Chemical, has already set up reserves sufficient to cover 32% of the face value of its outstanding Latin debt, which the bank estimates is enough to cover 90% of the problem part of the portfolio. Those reserves may now be adequate, letting the bank set aside bigger reserves to cover bad real estate loans and leveraged transactions.

A big winner is archconservative J.P. Morgan & Co., which created reserves covering 65% of its Latin debt. In the second quarter, Morgan was able to apply some $560 million (about $3 per Morgan share) from loan-loss reserves to its general reserves to cover highly leveraged transactions and other loan losses.

That indirectly increases Morgan's future earning power because it means the bank will be able to get by with fewer additions to reserves in the future—loan-loss reserves being a direct deduction from earnings.

Besides Morgan, other likely winners are Bankers Trust and Chemical. But many banks, like Citibank, are less fortunate. Securities & Exchange Commission rules prevent banks from booking interest income on Latin debt that they haven't written down to market. Instead the interest goes to reduce the principal. Unlike its brethren, J.P. Morgan wrote down the value of its Brazilian debt to market value, allowing it to take $14 million in interest directly into earnings.

To be sure, the price recovery for Latin debt remains fragile. The market probably can't absorb huge selling by banks that want out. This summer a worried New York trader visited Japanese banks, whose mammoth $40 billion or so in Latin debt is concentrated in Brazil and Argentina. He was reassured that improved prices would not tempt them to sell.

Still, the market for Third World sovereign debt is becoming more liquid every day. Some $200 billion worth of Latin debt issues will trade this year, twice last year's total and more than ten times the volume of five years ago. The most actively traded part of the market are the so-called Brady bonds—Mexican and Venezuelan bonds issued to help those countries restructure.

In a sense the whole affair is something of a vindication for retired Citicorp Chairman Walter Wriston. It was during his watch that his and other big U.S. banks lent heavily to the developing nations as a means of recycling Arab petrodollar surpluses. When critics questioned the wisdom of such lending, Wriston suggested: Sovereign nations don't default. Maybe Wriston was right after all.

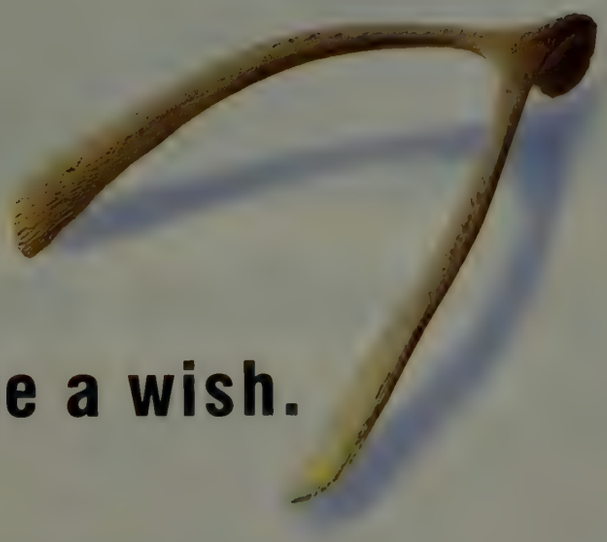
Will bank real estate lending have as happy an outcome? Don't bet on it. Unlike sovereign debt that is in arrears, foreclosed real estate is costly to carry. And, adds veteran bank-stock analyst George Salem, of Prudential Securities: "Countries have taxing power, developers don't."

Rewards for caution

Company	—Latin American debt*— reserves ($bil)	face value ($bil)	Reserve coverage	Per-share effect of 10% increase in loan value
Overreserved				
Bankers Trust	$1,111	$1,543	72%	$1.13
JP Morgan	500	900	65	0.28
Chemical	698	1,094	64	0.72
Adequately reserved				
BankAmerica	934	2,196	43	0.61
First Chicago	98	239	41	0.21
Chase Manhattan	1,160	3,088	38	1.38
Manufacturers Hanover	1,136	3,604	32	2.86
Citicorp	1,600	6,600	24	1.15

*Second-quarter results. *Source: Brent Erensel of Mabon Securities Corp.*

Big winners: banks with largest loan-loss reserves against their Latin debt.



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Because ↑ is the way you want to go. NEC

Its revenues surged from under $100 million to well over a half-billion dollars in just two years, but Thomas Chan still runs Playmates as if it had never stumbled upon the Teenage Mutant Ninja Turtles.

Heroes in a half shell

By Andrew Tanzer

TEENAGE MUTANT Ninja Turtles grossed well over $400 million at wholesale last year, grabbing 60% of the U.S. market for what the trade calls action-figure toys. Some 80 million of the green reptiles were shipped, an industry record.

The superlatives mount for these heroes in a half shell. This year will be the third straight year that Ninja Turtles dominate action-figure toys. Over 90% of American boys between the ages of 3 and 8 now own at least one Turtle, and the average boy has more than five in his bedroom, according to industry estimates. Those boys also buy the comics and watch the cartoons and movies.

Pure gold for Hong Kong-based Playmates International Holdings Ltd., owner of the license to produce Ninja Turtle toys. Turtlemania has made Playmates the most profitable company in toy history. In 1988 Playmates took in $76 million; in just two years its revenues rose above the half-billion-dollar mark. Its aftertax profits leaped sixty-sevenfold, to $156 million, giving Playmates a handsome 29% net margin and 119% return on equity. Excluding Japan's Nintendo, which is in a different (videogame) business, Playmates is the first toymaker in history to net over $100 million in one year.

As a result, Playmates' stock shot up 700% on the Hong Kong Stock Exchange in 1990, the best performance on the market. Statistically, the stock is still cheap, selling at under three times earnings. Quite clearly investors don't expect the fad to last forever. Thomas Chan, 41, the sober, perceptive managing director of Playmates, would agree that it isn't wise to project the Turtles' popularity indefinitely into the future. He knows the toy industry is littered with overnight

Eduardo Citimbum

Playmates' managing director, Thomas Chan, stays cool
"Never believe any buyer or even your own salespeople," he advises. "They're always too optimistic."

Playmates' new Toxic Crusaders. **Environmentally friendly, lucrative, and ready to take over if the Turtles slip.**

boom-and-bust stories, as a fad is picked up and soon dropped by kids. Coleco rose and fell with the fortunes of its Cabbage Patch Dolls; Teddy Ruxpin, the talking teddy bear (made by Worlds of Wonder), was even more spectacularly short-lived. Worlds of Wonder eventually went Chapter 11. Chan, whose family owns 49% of Playmates, with shares worth $215 million, has no intention of repeating those nightmarish scenarios.

Far from spending profits he hasn't yet garnered, Thomas Chan is preparing for the worst. Smart fellow, Chan. He knows the truth of the advice attributed to the late Thomas J. Watson of IBM: The worst mistakes in business are made in good times, not in bad times. Chan is running a tight ship, holding down overhead and spending a lot of his time looking for a successor to the Turtles.

Lean is too fat a word to describe Chan's Playmates. Just 110 employees generate $530 million in sales and $156 million of net profits. He has cut the head count every year since 1986, fixed overhead is now $14 million. Company headquarters in Hong Kong's Kowloon district is Spartan, with drab carpets and decoration.

Chan rails against the corporate bloat of U.S. companies. "Coleco had 1,000 employees when it went bankrupt. At one point it had 75 vice presidents—we have 5 or 6 and they talk to me every day. At Worlds of Wonder, the president's office was 3,000 square feet; mine is 150 square feet. If I ran Mattel, it would make $150 million profits, instead of $90 million."

Playmates has never forgotten its hard-luck beginnings. It was founded in 1966 by Thomas' father, Chan Tai Ho, not long after the family escaped in tiny sampans from Guangdong province. It started as a subcontractor for foreign toy producers. Now Chan subcontracts manufacturing to plants in China and Macao. But to be flexible and to allow quick decisions, he says, he subcontracts only to a handful. Some U.S. toymakers use 100 subcontractors.

Even design is subcontracted. The company studies more than 500 new toy concepts a year brought to it by sources such as Hollywood, cartoon and comic book artists and freelance designers. (The idea for Playmates' new hot-selling WaterBabies Doll was developed by a St. Louis banker.)

"I could have 100 designers in-house, but there's no guarantee they would come up with even a single good idea," says Chan. Better to pick the brains of people who are in business for themselves.

To limit costly inventory, Playmates consistently underwupplies the market. Sales nearly quadrupled in 1990, but Playmates ended the year with less inventory than at the beginning. The company's sales-to-inventory ratio of 51 is four times the average in the U.S. toy industry.

Moreover, keeping Turtles in tight supply helps to keep them in demand. You want kids fighting in the aisles for the toys, say toy marketing experts.

Thomas Chan works hard at staying cool. "You should never believe any buyer or even your own salespeople," he advises. "They're always too optimistic. Most retailers don't know what the hell they're doing." But don't retailers get angry when they're understocked? "That's okay," says Chan. "When retailers are angry at you, it means you have a good product." But woe awaits a manufacturer without something as hot as the Turtles who dares try this approach.

The Turtles came to Playmates in one of those strokes of luck that a genuine entrepreneur like Chan can capitalize on. And it happened on the heels of a near bankruptcy for the company. It had expanded, and by the mid-1980s was making more and more elaborate electronic and mechanical toys. After some successes, Playmates introduced Jill in 1987. She was Playmates' most complex doll ever, with blinking eyes and a swiveling neck—and was a disaster. Jill cost $200 to make and wholesaled for $129. "I learned that parents are not going to pay $200 for a doll, and that complicated, expensive toys have very little upside potential," he says. Playmates lost $5 million that year.

But when good fortune knocked, Chan was ready for it. Richard Sallis, now La Mirada, Calif.-based senior vice president of Playmates, brought Teenage Mutant Ninja Turtles to Chan. The Turtles, which sell for around $4, are based on a comic strip developed by two Massachusetts artists. They had been shopped around to large toy companies such as Hasbro and Mattel, which rejected them as too big a risk. The Turtles are what are called promotional toys—based on a

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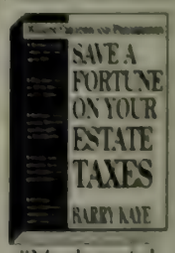

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* BASED ON CURRENT ASSUMPTIONS ©1991 WEALTH CREATION CENTERS

concept that lends itself to selling through TV ads and cartoon shows. At that time, the Turtles were not tied to a major movie or cartoon.

When Playmates unveiled the Turtles at the New York Toy Fair in February 1988, buyers greeted them with a yawn. Retailers also showed little interest. The few who did got quite a surprise: The wisecracking, pizza-eating, radioactive characters went flying off the shelves after they were launched in mid-1988.

Sallis, though, knew he was on to something different. He had driven around with a life-size turtle in the passenger seat of his car. "People stared so hard they almost crashed into me," he says. "Adults didn't get it; children saw the humor of it. Kids live in a different world." He sensed that little boys were ready for the likable, humorous Turtles after a spate of grim action figures such as He Man and G.I. Joe.

Playmate promoted early sales by paying for the first five episodes of a cartoon series on the Turtles. The cartoon is now consistently the top-ranked Saturday morning kids show in the U.S., is popular in Europe and will air in Japan later this year. Playmates also benefited from the blockbuster ($135 million gross) movie, launched in March 1990, and its sequel ($90 million gross).

Taking a lesson from Mattel's line of dozens of Barbie dolls and accessories, Chan now launches new Turtles every year. There are now 90, including samurai Turtles, military Turtles, surfer and space Turtles. This year he's adding talking Turtles, rock 'n' roll and sports Turtles.

Taking a lesson from Mattel's line of dozens of Barbie dolls, Chan now launches new Turtles every year. There are now 90, including . . . surfer Turtles. But Chan knows full well that the Turtles could easily go the way of the Cabbage Patch Dolls.

But Chan knows full well that the Turtles could easily go the way of the Cabbage Patch Dolls. Playmates is launching five other new toys this year. Top contender: Toxic Crusaders, led by "grime-fighting" Toxie, which are also tied to a cartoon show. They are hideously deformed and of superhuman strength, and got that way by falling into a vat of toxic waste. The Crusaders' mission is to fight pollution and evil characters such as Dr. Killemoff and Radiation Ranger. Chan knows his kids. He's aware that from kindergarten on their teachers fill them full of horror stories about pollution. Already the environment protectors are number three or four in the action-figure market.

Looking to the girls' market, Playmates has also launched WaterBabies Doll, which looks and feels like a real baby when filled with warm water. Over 2 million have already been sold at $16 (retail).

None of these may equal the Turtles. And, unexpectedly, the Turtles could live as long as Mickey Mouse. But Chan isn't counting on either thing happening. "If Turtles' sales were to collapse from nearly $500 million today, even to $100 million, we'll still make a profit," asserts Chan.

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A tradition of trust.

Three years ago some high-powered law firms allegedly made a drafting error that has come back to haunt them, a bankrupt publisher and its creditors.

Fine-print follies

By James Lyons

CAN A TRUSTEE for bondholders change its position? That's what First Trust National Association wants to do in the Chapter 11 bankruptcy of Ralph Ingersoll II's Community Newspapers, Inc.

The controversy centers on a bond indenture. Bond indentures spell out with legal boilerplate the terms of the bond and the obligations of the issuer. It's the job of the bondholders' trustee to enforce the terms of the indenture and protect the interests of the bondholders.

Which is where First Trust comes in. A St. Paul-based subsidiary of First Bank System, Inc., First Trust was trustee for some bonds that were issued by Community Newspapers, a company formed by Ingersoll and Warburg, Pincus Capital Co. Back in 1987 Community Newspapers issued $115 million in subordinated discount debentures to retire notes it had used to buy a newspaper chain. The company says these bonds were intended to be subordinated to other debts, namely a $150 million revolving term loan.

In 1988 Community Newspapers decided to float a second bond series. In terms of seniority, these new bonds (called senior subordinated reset notes) were designed to stand between the $150 million senior bank debt and the $115 million junior subordinated discount debentures. But when the lawyers started to draft the indenture for the reset bonds, they discovered what Community Newspapers euphemistically calls a "scrivener's error," in the indenture governing the first bonds.

It was a doozy. The indenture for the 1987 debentures included an "antilayering" clause. This was serious. An antilayering clause protects the holders of a bond issue by preventing the borrower from adding more senior debt without the holders' permission.

Chas B Slackman

In other words, the alleged clerical goof gave holders of Community Newspaper's junior debt more seniority than the company says they were meant to have.

What to do? The two high-powered law firms involved in the problem swung into action. Wachtell, Lipton, Rosen & Katz, counsel to Community Newspapers, and the New York office of Latham & Watkins, counsel to underwriter Drexel Burnham Lambert, sent a fax to First Trust, the trustee for the bondholders. First Trust says the lawyers asked it if it would allow a supplement to the bond indenture to get rid of the offending antilayering clause.

First Trust agreed. What's more, First Trust accepted the lawyers' assertion that the error constituted a "defect" and an "inconsistency," and therefore was sufficiently minor that the indenture supplement did not require the assent of the bondholders. That cleared the way for the sale of the $125 million in senior subordinated reset notes. Suddenly, subordinated debt that had been junior only to bank debt was shoved downwards in priority by the big wad of reset notes, and without the subordinated debenture holders' permission.

The issue might have been academic had Community Newspapers not filed for Chapter 11 in February. With that, seniority became a burning issue, especially from the subordinated noteholders' standpoint.

On Apr. 1 First Trust lobbed a hand grenade. In a letter to the subordinated debenture holders, First Trust announced, in effect, that it had changed its position. It now claimed that the supplement was invalid. First Trust does not concede there was a mistake in the indenture and in any case the debenture holders and the senior debt holders had to approve the supplement.

Community Newspapers has asked U.S. Bankruptcy Court Judge Stephen Stripp to declare that the debenture holders are junior to the reset note holders.

In papers filed in bankruptcy court, the trustee for the senior note holders says First Trust is trying to change the terms of the deal. That trustee contends First Trust is part of "a deliberate, conscious and calculated plan to gain an unfair and inequitable advantage" for the debenture holders. For its part, First Trust says it only went ahead with the supplement because of the advice from the lawyers for Community Newspapers and Drexel. But whether Judge Stripp rules for Community Newspapers or for First Trust, the entire debacle will likely spawn more litigation.

There are no heroes here. Wachtell, Lipton and Latham & Watkins may be guilty of sloppy drafting. But should First Trust be allowed off the hook merely because it relied on what the lawyers told it to do?

There's a lesson here for bondholders, too. Read the fine print. ■

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An astute auto analyst sees continuing problems for the auto industry. Even the Japanese will squirm.

The worst of times

An interview with Maryann Keller by Jerry Flint

THE AUTOMOBILE industry is in pain. Car/truck sales slumped from 16.4 million in 1986 to 12.6 million this year. Operating losses for the Big Three North American auto businesses may approach $10 billion this year. That's an average loss of a little less than $1,000 on every vehicle sold by the American companies.

How long can the bleeding continue? We put this question to Maryann Keller, a managing director of investment bankers Furman Selz and one of Wall Street's most astute analysts of the automobile industry. Her answers were not reassuring.

Keller: The private market [for automobiles] isn't showing any improvement as the year progresses. Typically, in a recession you get a tax cut. That gets consumer spending going, but this is the first time in my memory we've had tax increases accompanying a recession at the federal, state and local levels.

This vehicle market may not get much above the record 16-million-plus car/truck sales of 1986. The postwar-generation baby boom is aging. They've had their babies, they've bought their minivans.

The average transaction price today is around $17,000, and if the costs continue to rise, as they will, the industry will reflect that in pricing. People are going to adjust. They may buy fewer cars or less opulent cars.

Worse, the Japanese are making inroads into markets [luxury and midsize cars and trucks] that generate most of the profits for the American companies. Look at the new six-cylinder Toyota Camry. That's a rival of any midsize American car.

Detroit can't go on losing money indefinitely. Not even Soviet industry could accomplish that miracle.

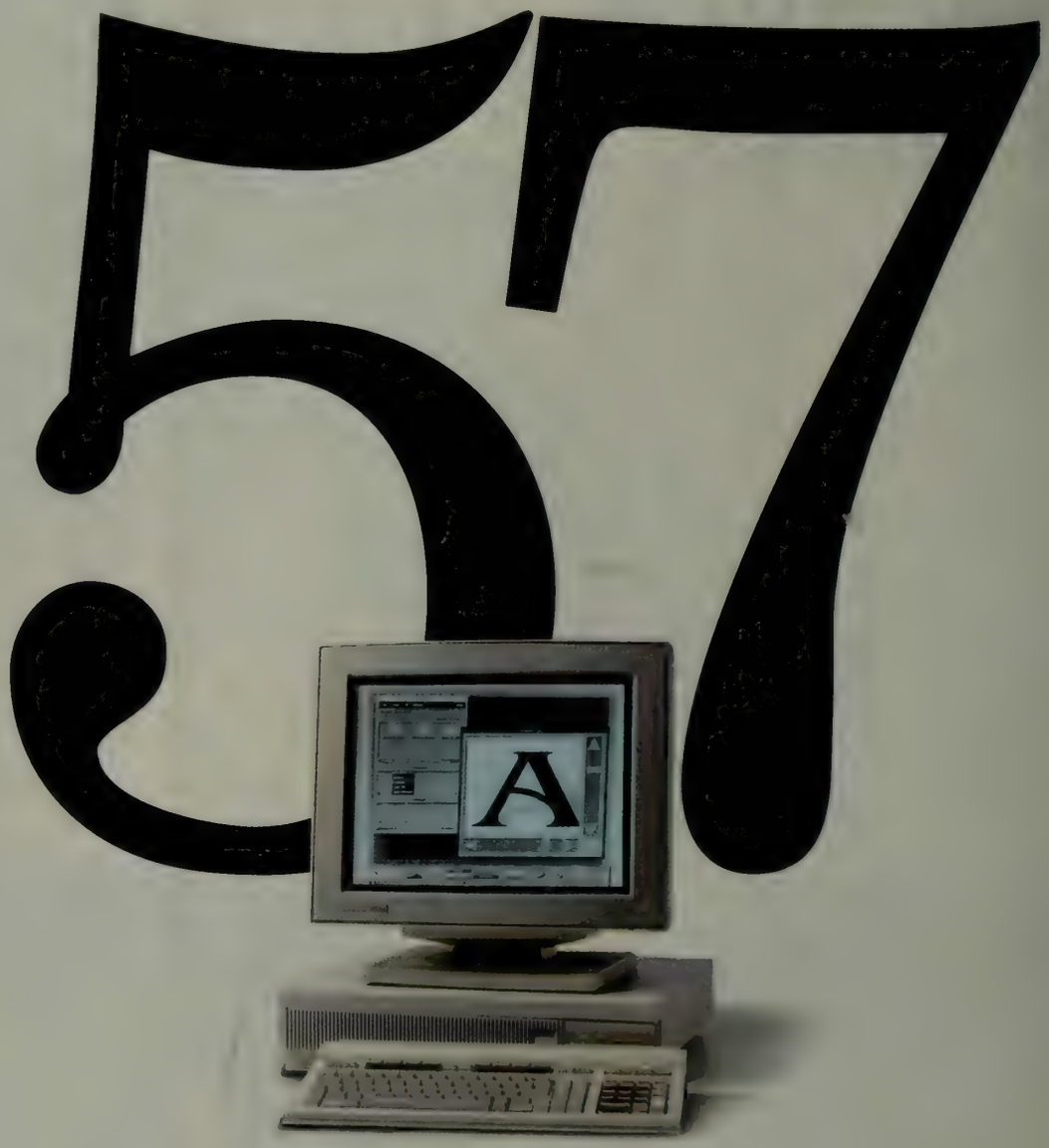
If the industry continues to hemorrhage, some of the problems will go away. Plants close, jobs will be cut. Within a decade there will be fewer companies selling cars in the U.S.

What's the good news?

Europe. Germany has been the bright spot in Europe and General Motors is really the big winner [GM earned nearly $2 billion in Europe last year]. I think Germany is going to continue to be a reasonably good market in

Auto analyst Maryann Keller of Furman Selz

"Everything is going wrong for the Japanese. The U.S. market has become unprofitable, the Europeans are saying 'not in my backyard,' and the Japanese home market is falling now that the bubble economy has burst."



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1992. In the five eastern states of Germany, Opel [GM's German unit] outsells VW, which is quite a feat. And GM has made some very promising investments in Central Europe.

But there's no sign of recovery in Britain, which is much more important to Ford than to GM, and one of the reasons Ford is not doing well.

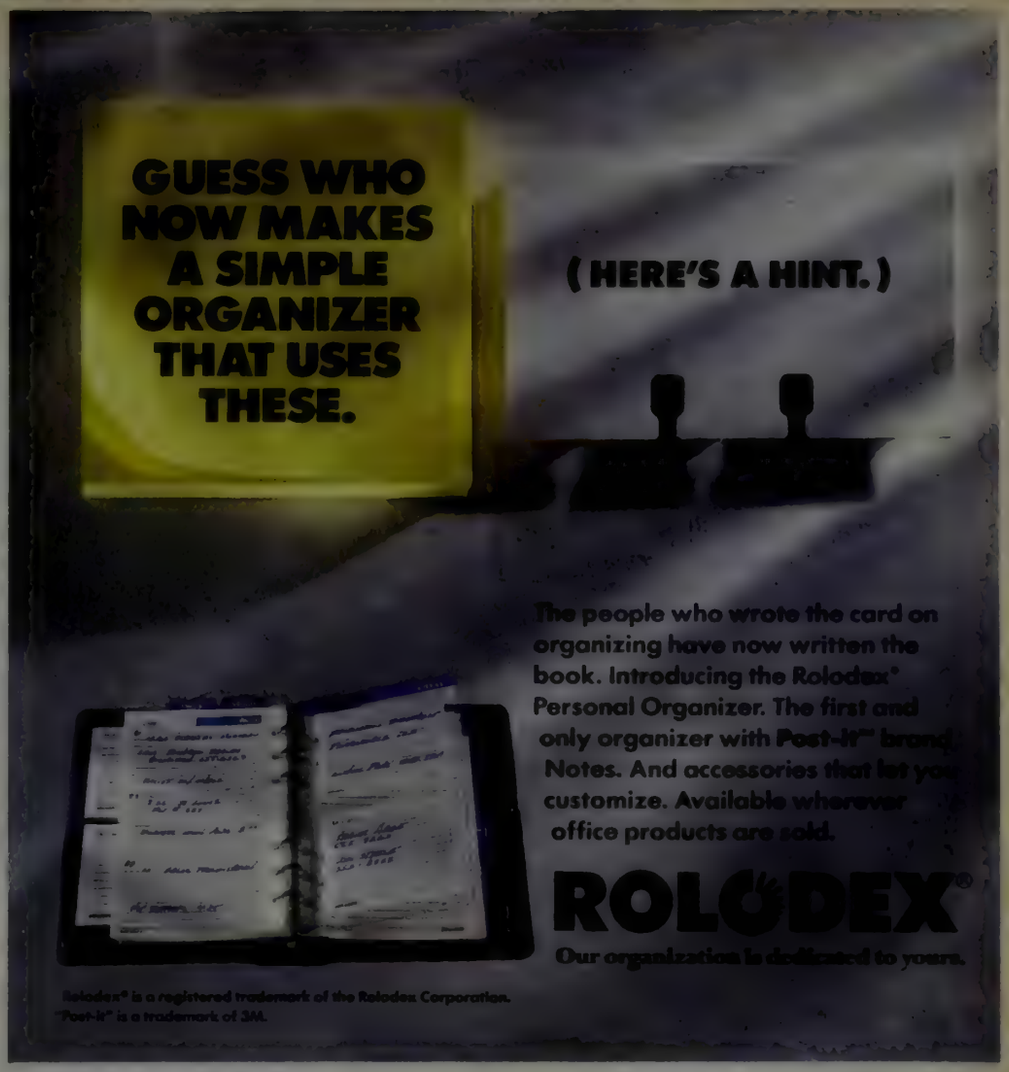
Why is GM Europe so successful? The product line, which is where any car company has to start, is great. The cars meet their competitors in quality and technology and are attractively styled. And GM Europe's headquarters staff is very small [only 120] and largely concerns itself with strategic investments and political issues. Bob Eaton [president of GM Europe] is not involved in pricing a car in Spain. That is the function of the operating businesses. So you don't see in GM Europe what you see in GM North America, the monolithic central bureaucracy telling guys in the operating divisions where to go and what to do.

Ford has no vice presidents under the age of 50 except Helen Petrauskas [for environmental and safety engineering]. Where are the leaders for the next generation? I can't name them at Ford.

Which brings us to GM in the U.S. GM's operating loss this year will be $6 billion to $7 billion in North America. They've admitted the earliest they could be profitable here would be 1993, but I think it will probably be 1994 or 1995, unless they can perform radical surgery on their costs.

It took GM ten years to get into this predicament. Today they are redesigning parts to get man-hours out of those cars. Maybe they take an hour out here and there. But they can't take 20 hours out, and that's what they need. But 20 hours means doing all the cars from scratch.

Go back to the experience of GM Europe, which was a basket case in 1978. It took ten years to get back. Don't expect miracles at GM North America.



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The auto industry in pain

Company	1990 sales ($bil)	1990 net income per share	Highest annual EPS since 1985	Recent price	Yield
Chrysler	$31	$0.30	$6.25	$10.13	5.9%
Daimler-Benz	57	24.22	35.40	422.53	2.7
Fiat	51	0.63	1.03	4.22	7.0
Ford	98	1.86	10.96	29.88	5.4
General Motors	125	–4.09	7.17	37.13	4.3
Honda	25	0.53	0.70	11.76	0.9
Mazda	13	0.16	0.18	4.26	1.3
Mitsubishi	15	0.14	0.15	5.68	0.9
Nissan	36	0.29	0.29	5.21	2.0
Peugeot	32	36.48	40.63	108.89	3.9
Toyota	60	0.90	0.90	12.00	1.2
Volkswagen	46	22.03	20.38*	213.24	4.8

Sales and net income figures are converted at rate of exchange at fiscal year-end. EPS are converted at average yearly rate of exchange. *VW's 1989 EPS in deutsche marks exceeded 1990 EPS.
Sources: Annual reports; Morgan Stanley; Forbes.

Productivity is the problem?
There's also a structural problem caused in part by the loss of market share. GM factories are designed to build just one car series per line, so the company is perpetually running factories at less than optimum capacity utilization, because they have so many platforms and each plant is dedicated to a single platform. Yes, they are making progress combining platforms, but it takes a long time to get all of that ironed out.

So GM either sells more cars or shrinks.
They probably have a strategy that embodies a bit of both.

As a stock analyst, what are you recommending?
The problem with auto stocks this cycle is that they never got cheap in relation to what the earnings and dividends are likely to be.

I see this as an industry that's going to be troubled for a long time. Plagued by slow growth and competition from the Japanese, who are going to compete in bigger cars and trucks.

We've talked about GM. Ford?
Ford has one big advantage over GM: much higher levels of capacity utilization and productivity. But Ford overestimated the strength of its automobiles, especially in Europe. We can now look back and say part of its record earnings in the late 1980s came from underinvestment in R&D and in product. Now they get a chance to bring out all-new engines in the 1990s, which could give them an advantage because they will have very modern, lightweight engines. But they are paying for underinvestment right now: falling market share.

If you can believe this, Ford has no vice presidents under the age of 50 except Helen Petrauskas [for environmental and safety engineering]. Where are the leaders for the next generation? I can name them in GM. I can even name them in Chrysler. But I can't name them at Ford.

Chrysler? Best shot.
Best shot. With the new stock issue and some asset sales [Chrysler is selling 35 million new shares at 10⅛], Chrysler accesses enough money over the next year, or until the car market turns around, to do the new cars [the midsize LH models coming out in 12 months and the new Jeep next spring]. It bought time. Now it's a question of how successful those cars will be and how fast the economy rebounds. I can't tell you that. But I have to say that from the standpoint of organizational efficiency and management, Chrysler is probably the best run of the U.S. auto companies.

Do the Japanese just keep on gaining?
No. The Nineties are going to be a very painful decade for some of them. For the first time everything is going the wrong way for the Japanese. The U.S. market has become unprofitable, even for the Japanese; the Europeans are saying "not in my backyard"; and the Japanese home market is falling now that the bubble economy has burst.

When Japan's carmakers get in a bind, they just squeeze their suppliers a little harder.
It's hard to squeeze suppliers that have already been squeezed to the wall. And many Japanese auto companies are going to have to pay the price of the cheap-money binge of the late 1980s. Right now they are having to modify some of their investment horizons to repay their debt issues.

If the total North American market doesn't grow much, I can see the Japanese companies reaching above 35% market share. That [extra volume] didn't matter as much to GM, Ford or Chrysler when the Japanese were selling 1.5 million subcompact cars. It matters more that the Japanese are going to sell 1.5 million large and luxury cars that compete against the breadbasket of the American auto companies, or if Toyota actually introduces a large pickup truck as well as continuing to dominate the low end of the market. That's a real threat.

One thing that I think we're going to see is a concerted Japanese effort to improve fuel efficiency, no matter what is legislated by Congress. It's much easier for them; with gas at $4 a gallon, the Japanese consumer is willing to pay for expensive technology to save fuel, so it's a much less risky investment. Now American quality is close to the Japanese. Vehicle size differences are not very great. What can you use in the 1990s to set yourself apart? I think fuel economy is going to be one of the issues.

Are the big U.S. companies doomed?
No, but I'm not sure Wall Street's going to be entranced with the results during the time needed. Remember how long it took to make GM Europe work—a decade. The same thing is going to happen in North America, particularly with GM. ■

Personal Investment Strategies

BLAZING A TRAIL *IN A BRAVE NEW WORLD*

By David S. Glick

For individuals who face decisions about their investments, the good news is that they can now choose from a vast array of investment alternatives. And the bad news is they can now choose from a vast array of investment alternatives.

While the economy seems to be coming out of a recession, there is no boom in sight. Financial markets seemed to be in a state of suspended animation because of the recession and the Gulf war, but now a new financial era may be beginning. The big question is how to respond to it.

IN THIS SPECIAL REPORT:

The Top-Down Approach
Three Strategic Pillars
Stocks: The Long-Term Core
Fixed-Income Securities
The Last Tax Shelter
Real Estate
International Investing
Futures and Options
Special Investment Vehicles
Mutual Funds for Every Occasion

This time around, substantial investors can benefit from new concepts to help them formulate investment strategies and new vehicles for deploying their funds. No one has learned to forecast tomorrow's stock and bond prices more accurately. Nor has anyone managed to square the circle and obtain additional returns without facing additional risks. But there have been significant changes in the approach individuals are taking to investment decision making. And a number of new instruments have made it possible to implement investment ideas with a high degree of precision. "Due to the comprehensive array of financial programs available today, personal investment portfolios can be custom-tailored to match an individual's current and long-term objectives," says Bruce Ventimiglia, senior vice president of Prudential Securities.

The Top-Down Approach

When the Nobel Prize in economics went to three American professors of finance last year, it symbolized the growing acceptance of modern portfolio theory. Professors Harry Markowitz, Myron Sharpe and Merton Miller were recognized for research that has revolutionized the way investment portfolios are put together and managed. For years many investors "had their assets allocated by the random accumulation of past investments—a stock here and a CD there," says Richard Hoey, chief economist of the Dreyfus Corp., but "they're coming to realize that there's got to be a better way." Now, he says, modern portfolio theory has taught astute investors to focus on asset allocation decisions.

"The first decision an investor should make is how to allocate his or her assets among stocks, bonds, cash and other investment categories."

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Personal Investment Strategies

Investments should suit your nervous system as well as your financial profile.

notes John L. Steffens, executive vice president of Merrill Lynch & Co. Only after completing that task, he adds, are investors ready for "the second decision," which is "how to allocate the equity portion among industries that seem attractive" and apportion funds within other asset classes as well. Then, and only then, can an investor start picking individual securities. Never mind the eternal quest for a good stock tip, says the Dreyfus Corporation's Hoey: "For most people, a solid long-term investment strategy reflected in a personalized asset mix is likely to be a lot more relevant to their financial future than is a constant search for the next hot investment idea."

In choosing investments, moreover, definitions of risk are also changing. Steffens says investors have always recognized "there is investment risk—the risk of an investment doing poorly because the circumstances of the company change. But there is growing awareness of inflation risk." This is the risk that an investment may turn out to be eminently "safe" but will fail to keep pace with long-term inflation rates, resulting in a loss of purchasing power no less real than if the investment had fallen in value.

Some investors think concepts like "risk management" and "investment strategy" are a bit pompous for what they do with their money. But in fact, anyone who invests has a strategy. The important thing is to consciously shape that strategy to reflect your needs.

The Three Strategic Pillars

To formulate an effective strategy for allocating assets and choosing investments, most people should weigh three factors:

- Understand why you're investing. "It's important to establish an investment goal," notes Stanley Egener, president of Neuberger & Berman Management, because that helps define appropriate investments.
- Keep in mind what particular investments can—and cannot—do, and match your selections to your short-term and long-term goals.
- Understand what Egener calls "your comfort level with different degrees of risk." Investments should suit your nervous system as well as your financial profile. If volatile prices keep you awake at night, never mind what the experts say about owning growth stocks. Conversely, if trading fascinates you, and you can afford to be an active investor, give some economic value to the fun you're having.

Once you've carefully developed a strategy based on your station in life as well as the state of the financial markets, Steffens warns, "It's a big mistake to think that if you've allocated it once you're done; it's an ongoing process." Changing family needs as well as changing markets

Personal Investment Strategies

demand periodic tinkering with your investment strategy.

Stocks: The Long-Term Core

Shares of stock in corporations should be the core component of most substantial investment portfolios. "Over the long term," says Charles Schwab, chairman of the investment firm bearing his name, "there's no better way to participate in the growth of the U.S. economy than through a diversified portfolio of common stocks." Investors pursuing a long-term goal—one at least five years away—should have "between 40% and 70% of their investments in stocks, depending on their risk tolerance," says Jonathan F. Zeschin, senior vice president of Stein Roe & Farnham. The reason is clear, Zeschin adds: "In the past, stocks have been the hands-down winners over the long haul."

In recent months, "the stock market has traded in a very narrow range," says Jean Bernhard Buttner, chairman of Value Line Inc., but, she adds, "We expect the market to rise over the next six to twelve months supported by modest domestic economic growth, low inflation and the prospect of improved corporate earnings by 1992 to 1993. We also expect the Federal Reserve to continue to lower interest rates because the risk of renewed economic weakness is greater than the danger of a reacceleration of inflation. Long-term government bonds should fall to a yield of about 7.5%, which will provide support for the market at current levels."

Those who agree have a long list of stocks to choose from—and a seemingly endless list of theories to guide their selection of stocks. Figure out where you want to be on the profit/risk spectrum and balance your selection accordingly.

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Many investors forget the bond market is not only a source of interest income, but also potential capital appreciation and trading profits.

Fixed-Income Securities: A Varied Role

"Although equities have outperformed most other investment vehicles over the long term," Jay Messing, a vice president of Shearson Lehman Hutton, says, "most individuals would not be comfortable with a portfolio comprised solely of equities, due to their historical volatility." The more short term your goals, the more you should rely on fixed-income vehicles rather than equities to realize them. With interest rates at their lowest levels in two decades, some investors are thinking twice about corporate bonds. But there are a variety of ways to play the fixed-income market. For example:

- Convertible bonds provide current income, albeit lower than straight bonds of comparable quality, and the right to convert to shares—a perfect combination if you think stock prices are about to begin rising.
- The junk bond market took a nosedive last year. But many experts believe this market is once again offering an attractive risk-reward relationship for those willing to ferret out the best credit risks. Many of the weakest issuers have been shaken out, and many remaining junk bonds can provide high returns without undue risks.
- By contrast, there's no question about the quality of mortgage-backed securities. John C. Bogle, chairman of the Vanguard Group, notes that "Ginnie Maes yield more than comparable Treasuries, although they're both guaranteed by the U.S. government." Investors can get an extra yield of perhaps 0.8% on Ginnie Maes and other mortgage-backed securities because of their unique risks. Like most bonds, their prices are vulnerable to rising interest rates, but in addition, falling rates can also hurt mortgage-backed returns. If mortgage rates drop, more homeowners prepay their mortgages and refinance their homes, so mortgage-backed securities holders find their principal being returned, requiring it to be reinvested at lower rates. Those who like the security of bonds backed by home mortgages, but not the cash flow uncertainties, should look at Collateralized Mortgage Obligations. CMOs smooth out the stream of payments, combining the high returns and security of a mortgage with the even payment stream of a corporate bond.
- Many investors forget the bond market is not only a source of interest income but also potential capital appreciation and trading profits. Bond prices move in an inverse relationship with interest rates, and when rates change, the entire inventory of existing bonds is repriced. The spread between prices of various categories of bonds also fluctuates. Those prepared to formulate a view of where interest rates are going—and act on it—can trade bonds in anticipation of changes in interest rates or spread relationships. It's a game for the fleet of foot, but it holds the promise of returns that can vastly exceed the interest on the bonds themselves.

Municipal Bonds: The Last Tax Shelter

One segment of the bond market that has become increasingly attractive to many households is the municipal bond market. The Tax Reform Act of 1986 left muni bonds as virtually the last tax-sheltered investment for most people. As a result, Robert R. Godfried, executive vice president of MBIA Inc., says, "Given the spreads between taxable and tax-exempt bonds today, municipal bonds can be advantageous for virtually anyone who has any savings."

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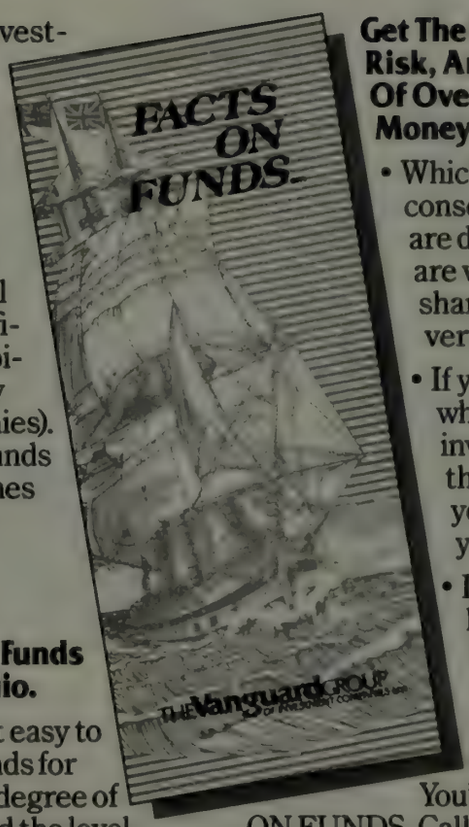
But with more than 2,000 funds to choose from, selecting the ones that best fit your needs can be difficult.



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The Tax Reform Act of 1986 left muni bonds as virtually the last tax-sheltered investment for most people.

Some investors have grown concerned because of the budgetary problems in a number of the nation's cities and states, but Godfried says, "In the aggregate, our state and local governments are in pretty good shape." Moreover, the security of municipal bonds has been enhanced as the proportion of munis backed by insurance has risen from 3% of the new-issue market to 31% over the last decade.

Because of the flight to quality by nervous investors, there are broad spreads among munis. As in the junk bond market, the investor prepared to shoulder additional risk can gain access to substantially greater returns by looking at the lower rated munis. Once again, you need to balance increased risk against potential profit in terms of your investment strategy.

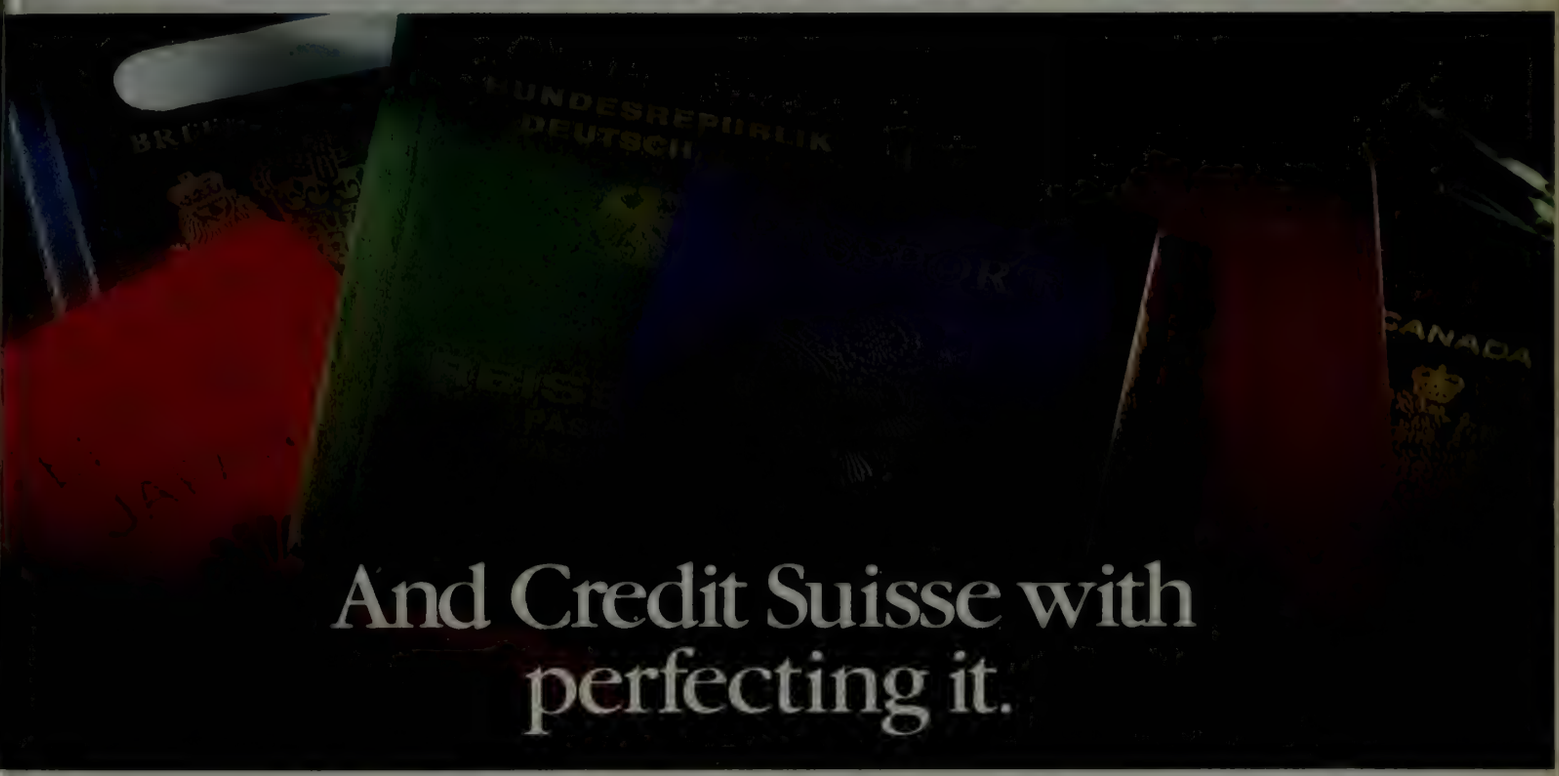
If you buy only municipal bonds issued in your state of residence, you can save state as well as federal taxes. But that's not a good idea for two categories of investors: those whose states are in precarious financial positions and those from states with relatively low income taxes. They could often enhance their total return by buying some out-of-state munis.

Real Estate: For the Long Term

While real estate markets have been troubled in several parts of the country, over the last four decades real estate markets have offered a highly attractive combination of current income and capital appreciation. Many individual investors need commingled vehicles to get into commercial real estate, and right now there are several funds seeking to invest in what they see as the inevitable revitalization of property markets in cities that have been hit hard, like Houston and Denver. Individuals, like institutions, could benefit from allocating 5% to 10% of their investment assets to real estate—but only if they're willing and able to take a long-term view.

International Investing Comes to America

For many Americans, investing has been a decidedly domestic game, but that's rapidly changing. Merrill Lynch & Co.'s Steffens notes that on lists of the top five performing markets in each of the last ten years, "the U.S. appears only once, so people who have shunned international markets have left an awful lot of money on the table." Moreover, academic studies have shown a relatively low correlation between securities markets in the U.S. and elsewhere, so international investments can help smooth out the overall volatility of a portfolio



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for many, investing has been a domestic game, but that's changing.

while offering access to enhanced returns. Unless you think you have good local sources of information about local markets, however, it's best to avoid smaller foreign companies and stick to better-known multinationals whose activities are followed by a U.S. broker.

Investing in foreign stocks and bonds creates currency risks, of course. Some investors accept that risk while others hedge it by buying protection in the foreign exchange market. Such protection can be costly, however, and investors can avoid the issue by seeking exposure to international markets through American Depository Receipts. ADRs are surrogates for foreign shares held in the vaults of U.S. banks. They're traded in dollars and on exchanges in the U.S.

There is growing American interest in foreign bonds, but these turn out to be almost pure currency plays; i.e. the return will depend mostly on exchange rates, not the specific issues chosen. There's nothing wrong with that; in fact, academic experts argue that currency markets have more clearly identifiable trends than securities markets, and astute investors have opportunities to identify and capitalize on trends. But investors should recognize the nature of the risks they're shouldering in foreign bond markets.

One way or another, major U.S. institutions are typically putting 5% to 15% of their money into international investments. And more and more individual investors are joining them, says Fidelity's Michael Hines: "There's a long-term secular trend that we're seeing playing out here. Investors will never retreat to investing only in the U.S."

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Trading many of these instruments is not for the fainthearted, nor for those with limited means. But it's often forgotten that the complex world of futures and options not only offers attractive returns for speculators, it can also enable conservative investors to lock in values and protect their portfolios through careful strategy.

Special Investment Vehicles for Special Situations

Ever eager to attract customers, investment firms continue to create specialized investments. There are a variety of hybrid and synthetic securities permitting investors to do things like separate dividend flows from potential capital appreciation on fixed-income securities and buy one or the other.

To meet the growing demand for short-term tax-exempt securities, for example, a variety of "synthetic floaters" have been created, which repackage bonds as floating-rate tax-exempt securities. What happens is that issuers use the interest from long-term fixed-rate municipal bonds to provide the variable-rate short-term interest paid on the floaters.

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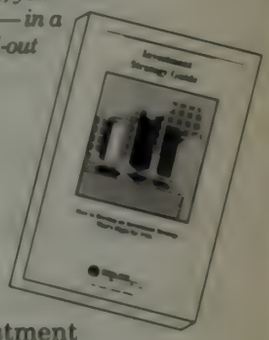

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Trading many of these instruments is not for the fainthearted.

Investors in these floaters can hold them to maturity or put them back to the issuer for cash or a share of the underlying bonds. But investors should recognize they may not be able to put the bond back to the issuer if it defaults or is downgraded to less than investment grade.

Investors can also move beyond the immense market for publicly traded securities via limited partnerships and other mechanisms that place money into venture capital, drilling for oil and gas, raising cattle, owning timberland or a seemingly endless list of other enterprises. But remember, the days when such vehicles were particularly useful in sheltering income from taxes are over. Now, if they don't have an economic basis, they only enrich the promoters. Economics, not structure, determines the return.

The Importance of Structure

There are two structures that remain important in investing: the devices for investing for children and for retirement.

Since 1986, the so-called kiddie tax has wiped out the tax advantages of giving money to children under the Uniform Gift to Minors Act. Until children turn 14, they're taxed at the same rate as their parents, and, moreover, the kids end up controlling the money. If you're willing and able to give children enough to warrant spending a couple of thousand dollars on a lawyer, however, you can set up a Section 2503(c) trust. Its income is taxed at rates as low as 15%, and the donor doesn't relinquish all control over the money.

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These days, there are mutual funds for every imaginable instrument.

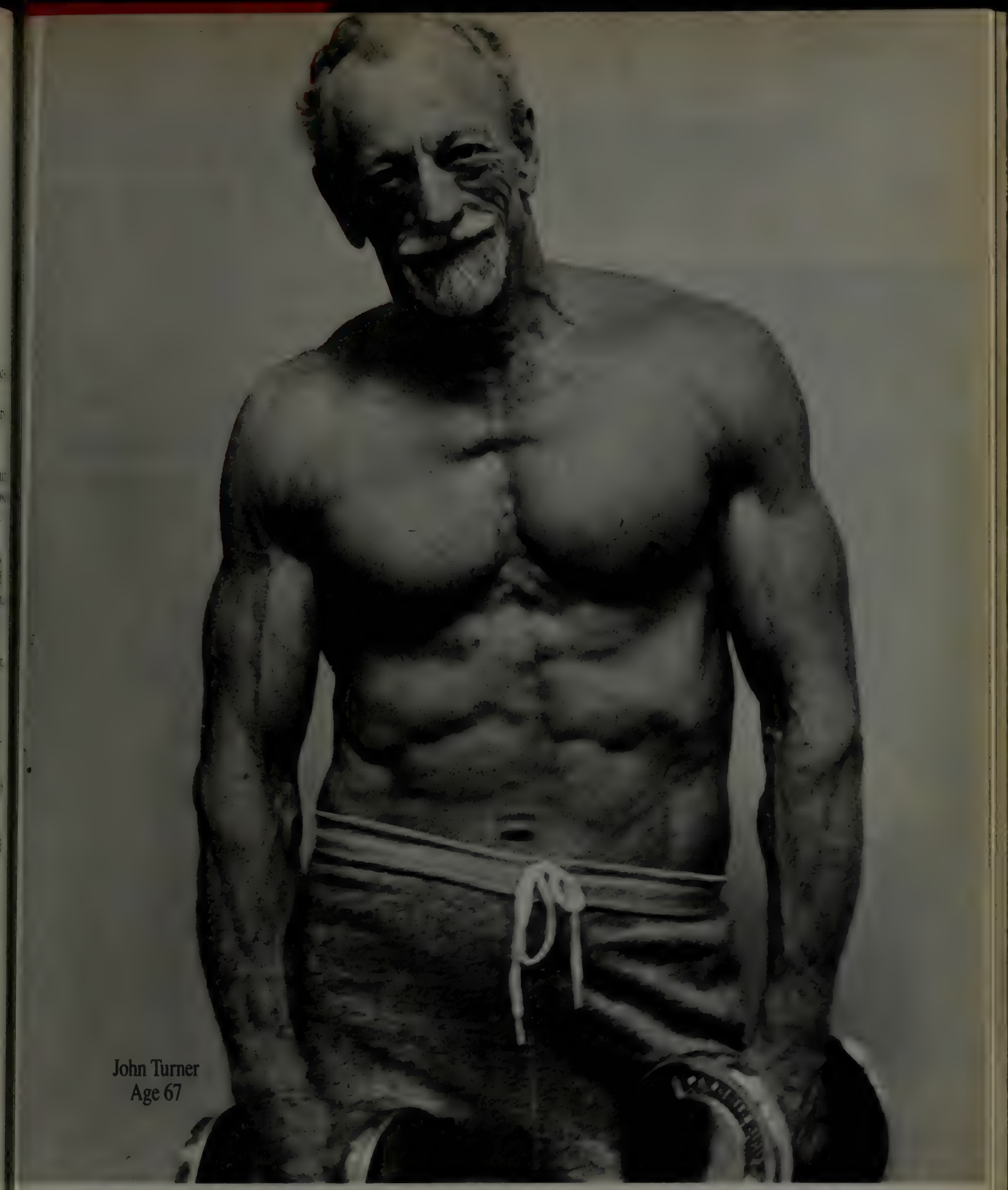
qualified retirement vehicles without touching it, these investments can grow tax-free. This holds true not only for corporate retirement systems, but also IRAs and Keogh plans for the self-employed and many insurance and annuity programs as well. One of the most rapidly growing vehicles of this sort has been 401(k) plans. Many people are "no longer as certain about their prospects for employment or the availability of other retirement resources, like Social Security," says Howard M. Stein, chairman of the Dreyfus Corp., so "these investors will utilize the 401(k) as a savings and investment tool, as well as a portable pension, if necessary."

Mutual Funds for Every Occasion

These days, there are mutual funds for every imaginable instrument, from mortgage-backed securities to German stocks, and from money market instruments to gold.

You can also use mutual funds to concentrate on specific sectors of the economy. So-called sector funds, which invest in a single industry, represent "something of a hybrid between owning an individual stock and a broadly diversified mutual fund," says Michael Hines of Fidelity. Hines says these are attractive for investors who feel good about the outlook for a particular industry but are happy to let a professional choose the companies within that industry in which to invest.

By using everything from narrow sector funds to other broadly based funds, investors can capitalize on the proliferation of mutual funds to pursue virtually any investment strategy they can think of. Moreover, Michael Downey, chairman of Prudential Mutual Fund Management, notes that "Mutual fund families provide the opportunity for investors to exchange between different types of funds as their needs may change over time." And for investors who can't think of a strategy, there are balanced funds and asset allocation funds designed to provide them with one.



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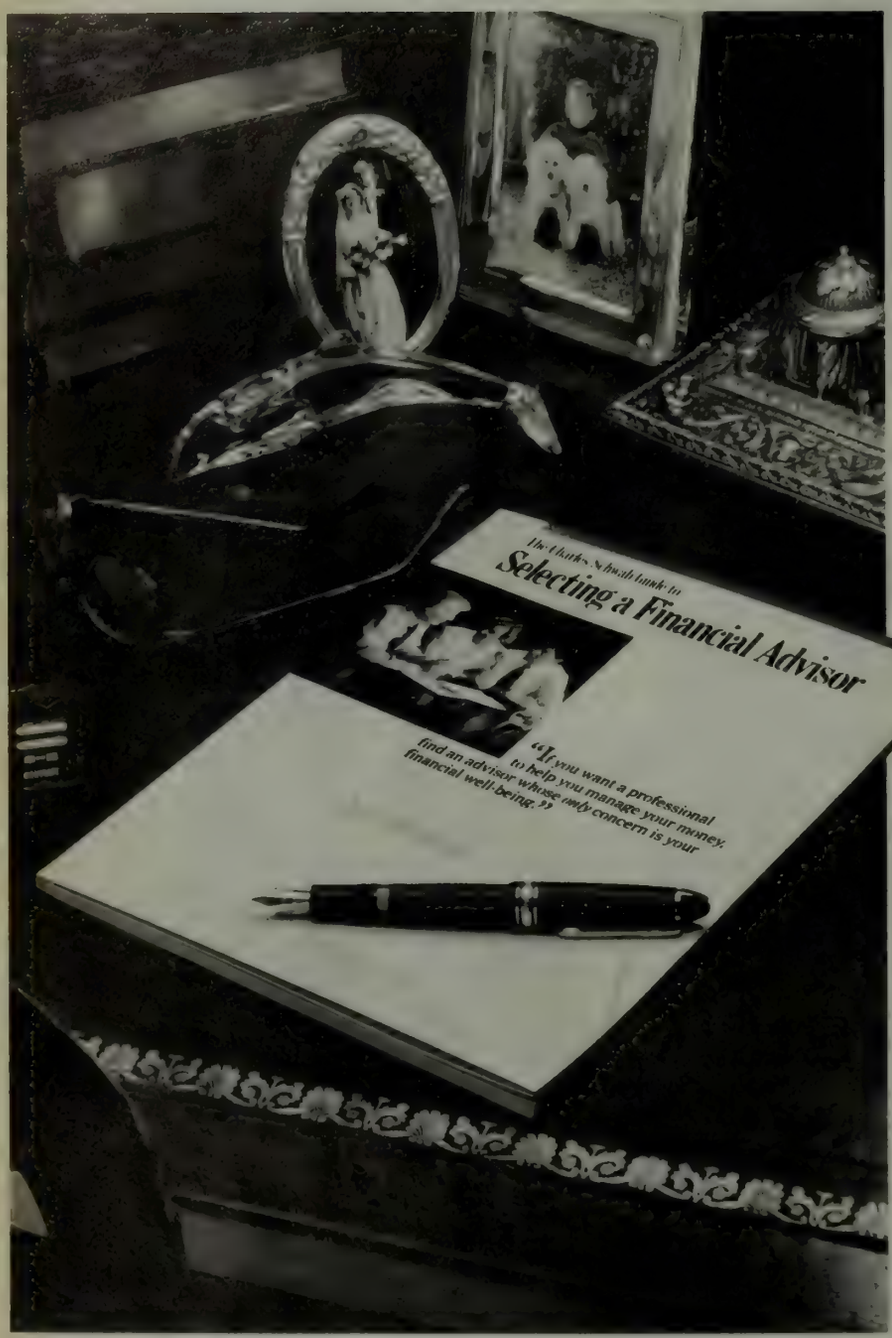

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David S. Glick is a business and financial writer based in New York.

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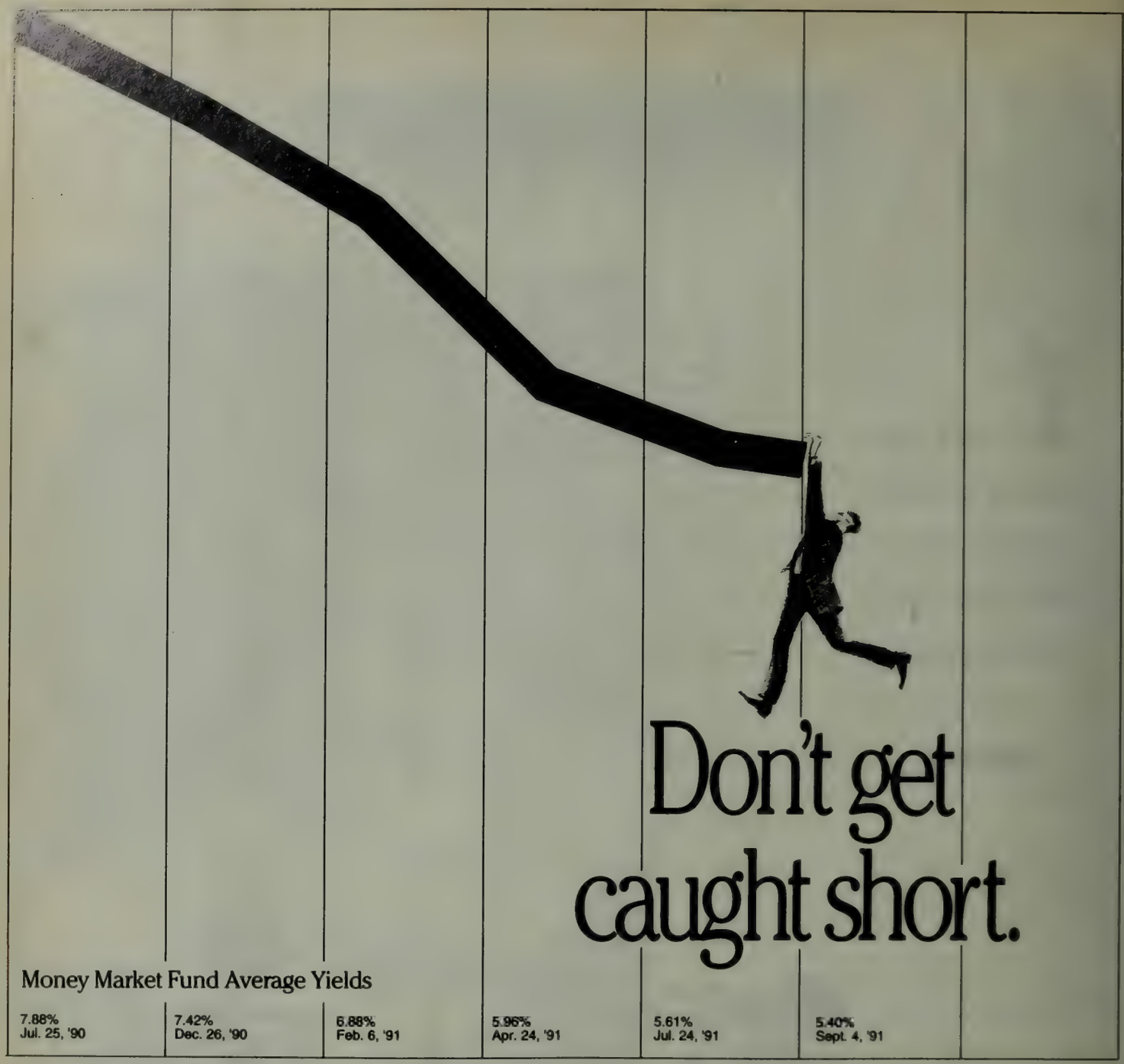

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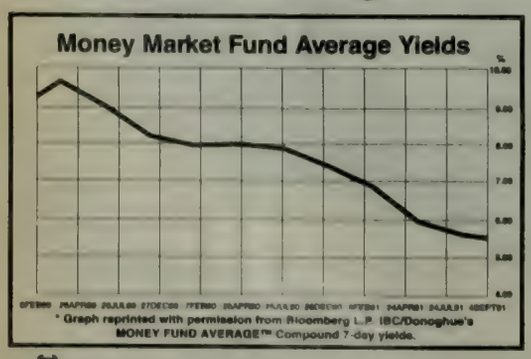

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A few years ago practically anyone with a set of blueprints could get financing to build hotels. Now values are collapsing and the vultures are circling.

Blood in the suites

By Howard Rudnitsky

The Diplomat hotel, in Hollywood, Fla.
Back in the lenders' hands.

HERE'S HOW San Francisco-based real estate investor G. William Tischer characterizes the hotel industry: "Heavy fixed operating costs, huge debt service, and hundreds of bankrupts and near bankrupts that are cutting prices every day to generate some cash flow just to keep going."

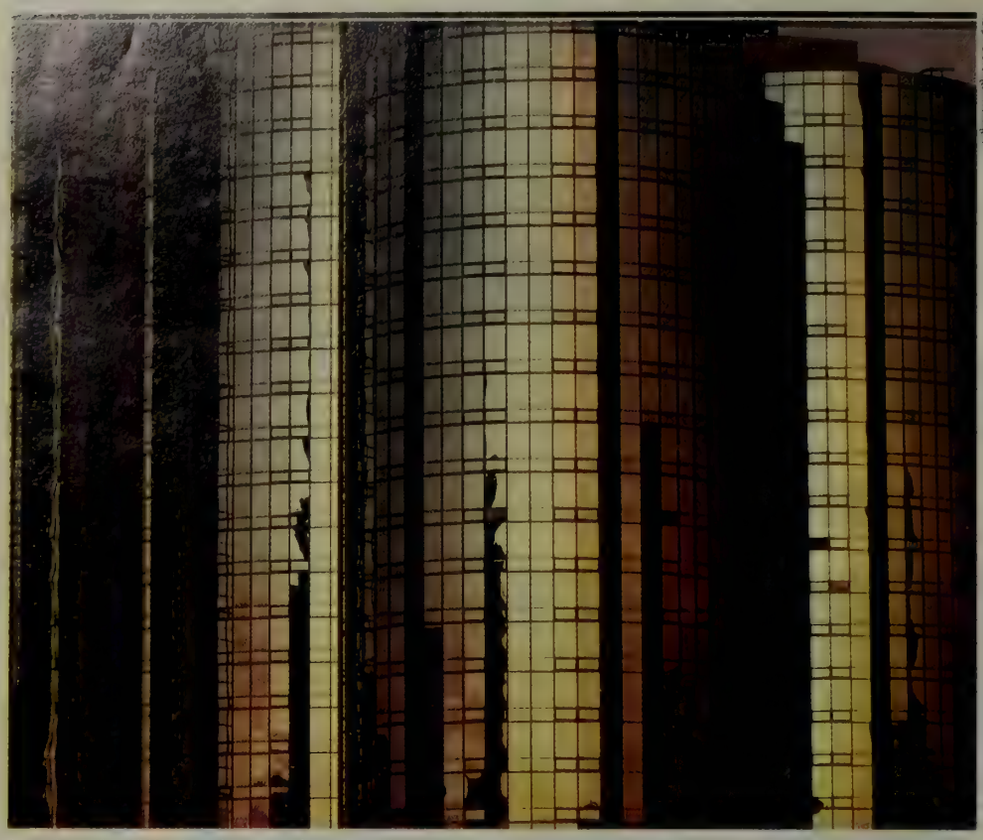
The bad news: Things will probably get worse before they get better. Says Tischer, who sold his San Francisco commercial properties before prices collapsed: "The rise in restructurings and foreclosures by 1993 could be three times as much as in 1990."

Hoteliers like Jonathan Tisch of Loews Hotels say they've never seen the hotel market as bad as it is now. "It's not just a half-dozen weak markets," says Tisch. "It's spreading across the country, and to large hotel properties in big cities."

Bjorn Hanson, a partner at accounting firm Coopers & Lybrand, figures at least 60% of all U.S. hotels are losing money. This year, he says, industry losses could approach $3 billion pretax, up 50% over 1990.

As many hotel properties' values plunge below the value of the properties' mortgages, developers are giving the keys to the lenders or the lenders are snatching the keys from the developers. Coopers & Lybrand's Hanson says hotel foreclosures approached $900 million last year and are sure to exceed $1 billion this year. In June Equitable Life Assurance filed an intent to foreclose on the 1,474-room Westin Bonaventure in downtown Los Angeles. In Orange County the owners of the 485-room Irvine Marriott filed for bankruptcy. A number of Florida hotels have been foreclosed or have filed for bankruptcy, including the Biltmore. And the 1,050-room Diplomat in Hollywood was taken over by lenders after the previous owners defaulted on their loans.

Japanese banks in California are hurting. Banks like Mitsubishi, Tokai and Sumitomo lent at least $5 billion on overpriced hotels, resorts and country club acquisitions. Tokai wanted to foreclose on the partly completed Park Hyatt on Santa Monica Beach, but it went into Chapter 11. After investing $500,000 a room, developer Sam Stein ran out of funds. The hotel has structural problems—it may be sinking—and could cost an



Ralph Clevenger/Westlight

Los Angeles' Westin Bonaventure hotel
With 1,474 rooms, the older downtown hotel has become a victim of intense competition and a weak economy.

additional $250,000 per room to fix.

Sometimes developers manage to outmaneuver lenders. This year Security Pacific tried to foreclose on San Francisco's famous 417-room Sir Francis Drake, on which the bank is believed to have a $34 million mortgage. But the hotel's owners filed for bankruptcy first, tying up the property in the courts.

The lenders have only themselves to blame for the overbuilt and overly leveraged hotel market. In the mid-1980s banks were eager to compete with thrifts and life insurers as lenders to hotel developers. But they didn't intend to be long-term lenders. So they issued lots of "bullet loans"—loans written to roll over in five to seven years, the idea being that the developer would refinance the project with a permanent mortgage.

These bullet loans generated big upfront fees for the lenders, but the banks have long since paid dearly for those fees as the number of troubled hotel loans has climbed. At Citicorp some 20% of its $1.2 billion hotel loan portfolio is nonperforming. At Chemical Bank, with 6% of its $6.7 billion commercial real estate loans in hotels, fully 25% of its hotel loans are nonperforming. At Manufacturers Hanover the figure is at least 13%.

The insurance companies have done only slightly better. Hotel loans account for only 4.8% of the life insurance industry's $245 billion of commercial mortgage loans, but as of June 30, 11.7% of hotel loans were slow or nonpayments; this compares with 5.4% for all commercial mortgage loans. Aetna Life & Casualty's $2.3 billion in hotel loans had a delinquency rate of 15%. Cigna Corp. had $1 billion in hotel loans, and nearly 10% are now delinquent or foreclosed.

At least $10 billion worth of banks' bullet loans used to finance hotels will come due over the next few years. But whether the insurance companies, S&Ls and commercial finance companies will be there to provide the refinancing is an open question. If they're not, the banks will have to extend the loans or take back the property—something they prefer not to do.

Meanwhile, overhanging the hotel market are the Resolution Trust Corp.'s 196 hotels and motels seized from failed thrifts. As long as these properties remain unsold, hotel values will remain under pressure. As it is, hotel people estimate hotel values have plunged by some 35% from their bloated mid-1980s levels. In some markets the decline has been 50%.

The hotel management companies? In the 1980s hotel management operators like Marriott, Hilton, Hyatt and Sheraton sold off hotels to investors and built expensive new ones for them. Typically, the management companies would charge up to 5% of gross revenues, plus 10% of income before fixed charges, plus added fees. These added up to a fat 10% of gross revenues. Most agreements ran to 20 years; Marriott's ran as long as 50 years. But with so many troubled hotels and little new business, new management contracts are being written at 4% to 6% of gross revenues.

All in all, not a pretty picture—unless you have some ready cash and are in the market for a hotel. Last year Japan's Pan Pacific Hotels & Resorts bought well-known Atlanta developer John Portman's Portman Hotel in San Francisco at a cost of nearly $325,000 a room. The property cost Portman an estimated $450,000 a room, putting the Portman Cos.' loss at $40 million on that property—and the Japanese may have overpaid.

With prices plummeting, real estate brokers are being sought out by hotel vulture capital funds and other hotel investors. One group of investors is negotiating to acquire a 300-room airport hotel in the Midwest at a cost of $70,000 a room; the rooms cost $130,000 each to construct.

Loews' Tisch family, which decided not to expand in the mid-1980s when practically anyone with a set of blueprints could get money to build a hotel, is also bargain hunting. Loews has already bought three hotels in small-city markets (Nashville, Annapolis and Denver) at around 60 cents on the construction dollar.

Another well-heeled operator who could reappear in the hotel market is Robert Bass. He and a group of investors sold New York's Plaza Hotel to Donald Trump at the top of the market for $409 million. Today the Plaza is worth little more than half that. As hotel prices come crashing back to earth, Bass and the other smart hotel people who are sitting on cash will be waiting to profit again.

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It has taken centuries of struggle by giants to establish "a government of laws and not of men." Today, pygmies are trying to reduce it all to a question of a judge's "views."

Integrity is the issue

BY THOMAS SOWELL

Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

MANY YEARS AGO a black professor—a militant on racial issues—was teaching a course in economics at a well-known university. Among his students were two white South Africans.

"Now, I hate those bastards," he told me. But it turned out that the South Africans were the two top students in his class, so he gave them an A and an A+. That is what integrity is all about.

Such integrity is the hallmark of professionalism, whether in a professor, a physician or a judge. That is what makes it so wrong-headed for members of the Senate Judiciary Committee to be grilling nominees for the Supreme Court about where they "stand" on "issues." Any Justice of the Supreme Court who decides cases on the basis of where he personally stands on issues lacks the integrity for the job.

Justice Oliver Wendell Holmes made no secret of the fact that he despised some of the people in whose favor he voted. One he accused of writing "a silly leaflet," based on a "creed of ignorance and immaturity." Holmes was quite clear about the role of a Supreme Court Justice. His job was "to see that the game is played according to the rules," he said, "whether I like them or not."

It has taken centuries of struggle by giants to establish the ideal of "a government of laws and not of men." Today, pygmies are trying to reduce it all to a question of a judge's "views" on some "issues," whether he will be a "champion" of this or that group, or of this or that cause.

To listen to the recent confirmation hearings on Judge Clarence Thomas, you would scarcely guess that Judge Thomas had written a number of decisions on the Circuit Court of Appeals, and had voted on more than 100 other decisions there. Were those decisions good, bad or indifferent? No one seemed to be nearly as interested in that as they were in what he said in a speech at some political gathering years ago. These statements were supposed to provide clues to his "views."

In recent years, judicial confirmation hearings have become more and more like a Roman circus, complete with Christians being thrown to the lions. Whatever their ratings as political theater, such hearings are a serious and lasting disservice to the country.

Above all, they promote a dangerous misconception about the role of courts and the rule of law. Where a judge "stands" on "issues" is far less important than where he stands on judging.

If a nominee has already been a judge, then it is his record as a judge that should be scrutinized—not to see whether everyone agrees with his decisions, but to see whether those decisions reflect faithfulness to the written law, intelligence in applying the law and the integrity to keep his own personal emotions out of it.

The dry application of legal rules may not be very exciting stuff, but it is crucial to the survival of freedom. In a free society, people know in advance what the rules are—and they know that they are not subject to arbitrary power, so long as they stay within those rules. You cannot have a framework of known rules if judges are free to engage in legal adventures, based on their own personal philosophy.

To ask judicial nominees where they "stand" on "issues" is to suggest that this should be the basis for their rulings. If it is, then there will be as many different versions of the law as there are judges—and freedom will become a memory.

Another dangerous long-run consequence of turning judicial confirmation hearings into political theater is that some of the finest legal minds in the country cannot be nominated to the Supreme Court. Their writings, instead of being evidences of the kind of intellect sorely needed, become a "paper trail" for committee staff aides to comb through to find a word here and a phrase there, as targets for political grandstanding by the senators.

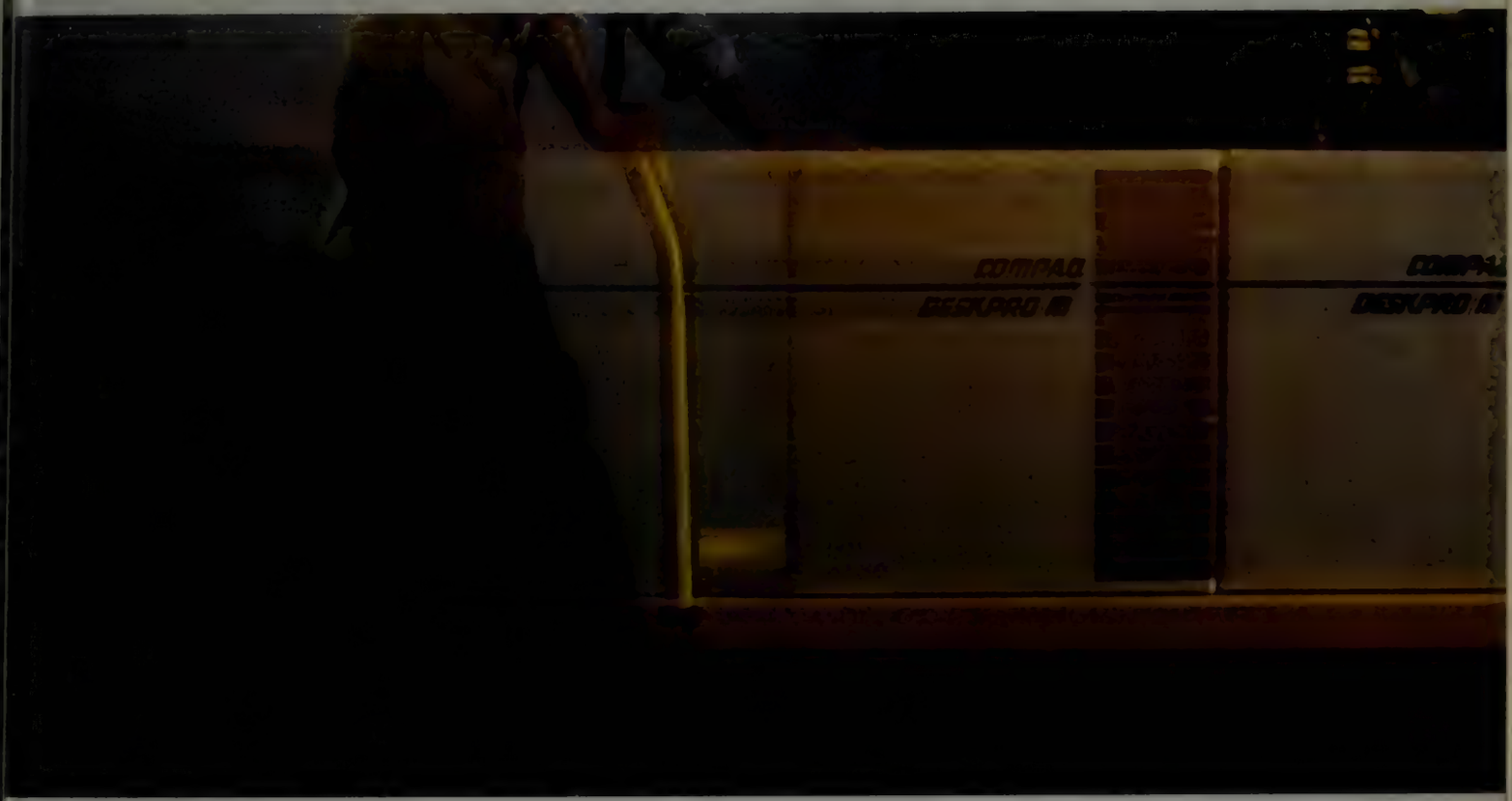
Under these conditions, the qualities needed to survive confirmation hearings are radically different from the qualities needed to become a first-rate Supreme Court Justice—and we cannot risk having second-rate Supreme Court Justices.

Finally, the badgering, the cheap shots and the innuendos that have become standard procedures in judicial confirmation hearings in recent years not only demean the individual nominee but undermine the dignity of the high office itself.

When a question has been asked once, and answered either satisfactorily or unsatisfactorily, nothing further is gained by asking it dozens of times more in different words. Some nominees have had their integrity questioned in senators' opening statements, before saying a word. Senators have votes with which to express their opinions. They do not need to have insults as well.

Public respect for the courts and the law is one of those intangibles, without which all the tangibles are not going to work. ■

No one.



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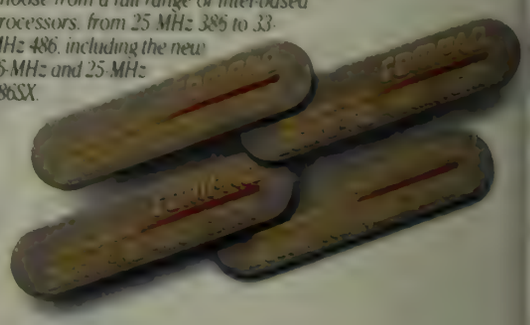

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Jim Busby's dream came true when he quit his job and started his own company. Like a lot of other tinkerer-entrepreneurs, Busby couldn't manage success. But there's a happy ending.

"Risk not thy whole wad"

By Claire Poole

JUST WHEN James Busby figured he really had it made, everything started falling apart at his Mobile, Ala.-headquartered QMS, Inc.

In 1977 Busby, a University of Alabama-trained engineer, sent his youngest son to bunk with his brother and used the vacant bedroom to set up shop making circuit boards for computer printers. QMS was born.

The concept that took form in the commandeered bedroom was based on Busby's experience as a systems engineer at Scott Paper in the mid-Seventies. Busby saw that the company needed to be able to print labels on huge rolls of paper that could be read from a distance by eye as well as with a computer scanner. Stymied, 31-year-old Busby, who was already putting in 50-hour weeks, turned his son's bedroom into a high-tech lab. On nights and weekends he tinkered with a circuit board that could translate computer data into a variety of letter sizes and bar codes, and then feed that information into a printer.

To save computer memory and processing time, he loaded the board with its own microprocessor and memory chips and then plugged it in inside the printer.

It worked. When Busby showed Scott what his board could do, however, his employer was lukewarm.

But Busby, the son of an Alabama refrigerator repairman, had always wanted to start his own business, and he knew he was on to something. So he quit his job, borrowed $10,000 from the bank, and started QMS—then known as Quality Micro Systems—in 1977. Scott eventually came around, and bought Busby's first four circuit boards. In his first full year his company made profits of $4,000 on sales of

QMS' James Busby (seated) and Charles Daley poring over printouts from new Kanji laser printer
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NEW AUDI 100 HAS GERMAN MOTORING PRESS DOING A 180°.

In a surprise turnaround, three of Germany's top automotive journals rated the new Audi 100 V-6 better than the Mercedes 300E 2.6 and the BMW 525i.

ong regarded as the reigning monarchs of German performance sedans, Mercedes and BMW have never had much concern about possible dethronement. However, t was before Audi engineers unveil- their most impressive achievement date. The all new Audi 100.

In tests conducted by three of Ger- any's top automotive journals, the tally redesigned Audi 100 outscor- both the Mercedes 300E 2.6 and e BMW 525i.

According to AUTO MOTOR UND ORT, the Audi 100 took control of e testing early and often, besting ercedes and BMW in Bodywork, andling and Control, and Economy.

he all new Audi 100 was rated better than its mpetition in three separate tests conducted by these ading German automotive publications.

Audi has succeeded...in not just rawing level with the competition, ut moving ahead of it."

It would seem that the eight years udi engineers had labored over this ewest of Audis had indeed paid off. s Andres Borchman, editor of AUTO ILD, said, **"The new Audi 100 is no onger number three among the dis- nguished German marques, but, s the test proves, number one."**

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Both on the surface and beneath the skin, the new 100 differs dramatically from its predecessors. The styling is more dynamic. The interior is roomier. And the venerable 5-cylinder power plant has given way to a 172hp V-6 engine with superior low-end torque.

One area that wasn't tested but should be mentioned is the Audi Advantage: A program that includes the cost of all scheduled maintenance, even oil changes, for three years or 50,000 miles.

Neither Mercedes nor BMW can top it. Nor can they any longer claim to be at the top of this class. That honor now belongs to the new Audi 100.

AUDI 100S AT A GLANCE

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BRAKES: ABS, power vented front discs, rear discs

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MAJOR STANDARD EQUIPMENT: Driver's side airbag, automatic tensioning front seatbelts, power steering, windows, seats, and locks, A/C, cruise control, tilt and telescopic steering, two-way power sunroof

SOUND SYSTEM: 8-speaker AM/FM stereo radio/cassette w/anti-theft features

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***See dealer for details. † 1992 EPA estimates.*

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$200,000.

After that QMS took off like a rocket. By fiscal 1987 the ten-year-old firm was making laser printers and racking up revenues of $119 million and profits of nearly $9 million. Busby had taken the company public in 1983, and was sitting on $31 million worth of stock.

Then, says Busby, "Things just got out of control."

In late 1987 the technologically adept little company signed a promising side deal. It would supply Hewlett-Packard with $50 million worth of circuit boards for HP's LaserJet printers. The boards would allow HP's printers to work with computers running Adobe Systems' PostScript software, the leading software for desktop publishing. That deal, so promising at the time it was made, almost wrecked the company.

Busby—a tinkerer more than a manager—geared up to turn out the circuit boards, cost be damned. "Budgets," he says, "had always been meaningless" at QMS because growth had always rescued management from miscalculations and inefficiencies. No such luck this time. HP purchased only a third of the circuit boards QMS expected to sell in the first year, and eventually canceled its agreement when it decided to redesign its printers and buy the boards elsewhere. QMS ended up taking a $10 million write-off on its inventories.

It couldn't have come at a worse time. QMS' main business, laser printers, was in the middle of an expensive changeover to a higher-performance technology. A shortage of DRAM chips, an important component in the printers, was driving costs through the roof. Plus the company was spending heavily to start its own direct sales and service organization.

Costs were wildly out of control. Revenues were still rising—to $187 million in fiscal 1988—but QMS racked up losses of $5 million. Shares of the New York Stock Exchange-listed company fell from a high of 14 to 6—well below their split-adjusted offering price of $8.50.

The board of directors was getting nervous. There was talk of ousting Busby in favor of a professional manager type. Busby didn't wait for the board to act. He brought in Charles Daley, a former financial troubleshooter on acquisitions for United Telecommunications, as chief financial officer.

Daley, now 57, had plenty of experience with little high-growth companies run amok. Says he: "QMS was 100% entrepreneurial, 0% controls." Daley quickly put QMS on a tight budget, implemented strict inventory controls and accounting practices and pared back operational expenses. By the first quarter of 1989 the company was back in the black.

And QMS has stayed there. Its 175-person research and development team is making sure that the company doesn't fall behind in the rapid race for new technology. Last year QMS began shipping to Japan the first color laser printer able to print all 7,500 characters of the Kanji language. Previous innovations: one of the first desktop laser printers in 1982 and the first color laser printer in 1988. Next year Busby hopes to bring out a color printer that prints on plain paper.

His 1988 decision to start a direct sales and service force is now starting to pay off. Today corporate clients like Boeing and AT&T make up a third of the company's U.S. sales. Overseas sales—in Europe and the Pacific Rim—are now 36% of revenues and 47% of operating income. QMS' 400-person work force assembles its printers in Mobile and at another, smaller facility in the Netherlands.

In fiscal 1991 QMS is expected to earn $18 million, or $1.60 a share, on revenues of $305 million. Recent price of the Big Board shares: 23, or about 14 times expected earnings.

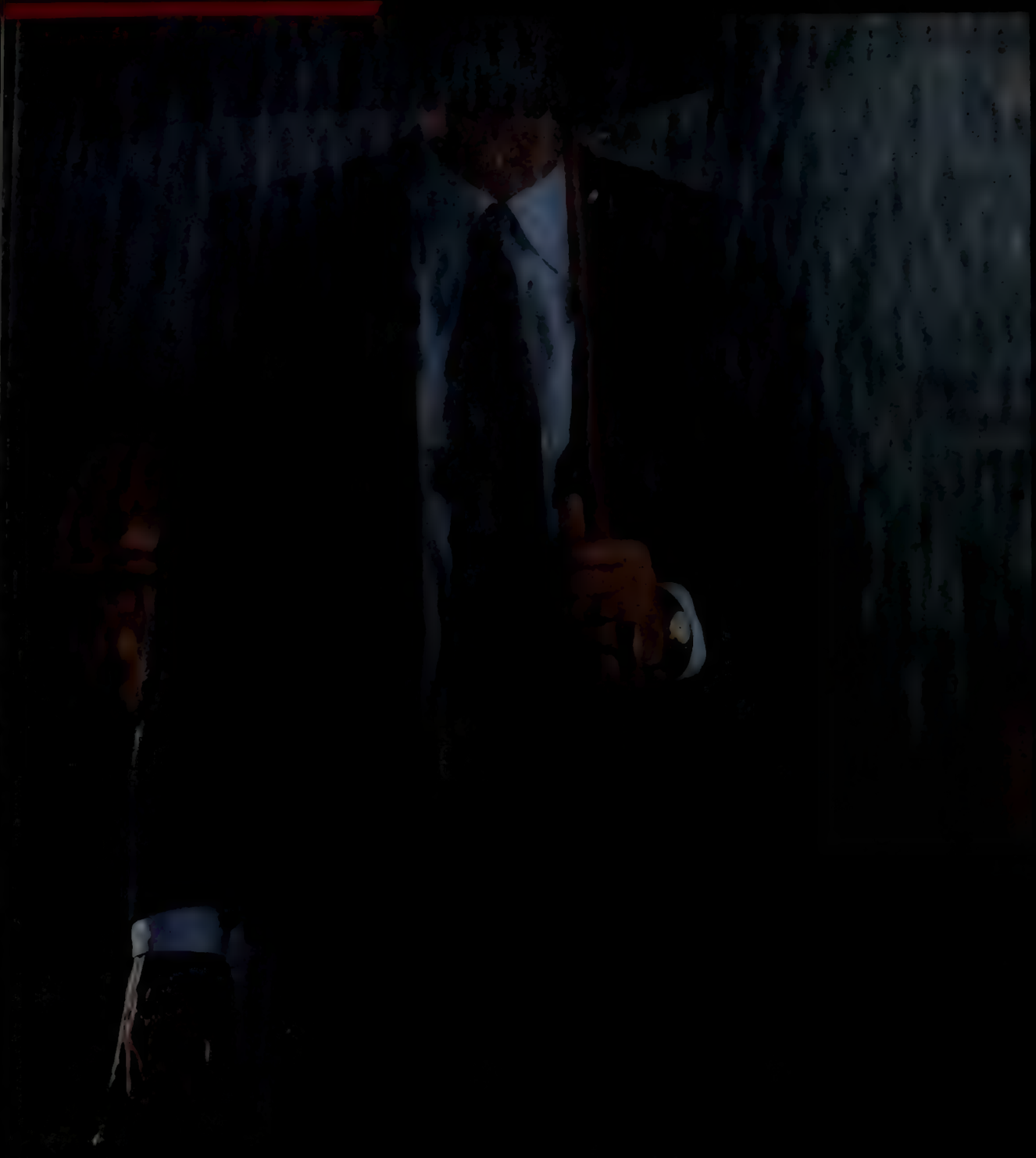
Busby, 45, now owns just 6% of the company's 11 million shares, worth about $14 million. Public offerings to raise capital and an acquisition account for much of the dilution, but Busby made a mistake that made the dilution worse. He would own 12% but for this: At the time of the 1987 market crash, he was trading index options at the urging of a cousin who is a stockbroker. He took a drubbing and had to liquidate half his QMS shares to meet margin calls—at a time when QMS shares were themselves badly depressed.

"I've thought about getting a plaque made for my desk, 'Risk not thy whole wad,' " Busby jokes. But in business as well as investing, he knows success never comes without a share of mistakes. "You can say," says Busby philosophically, "I've learned a few lessons."

Boyd Knapp

The laser printer assembly line at the QMS plant in Mobile, Ala.

Corporate clients like Boeing and AT&T now make up a third of QMS' U.S. sales.



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America needs a n fast and effective clea

An alarming lack of progress in cleanup.

When Congress enacted the Federal Superfund program in 1980, the goal was to quickly clean up America's most dangerous hazardous waste sites. Congress and many others assumed there would be only a relatively few such sites and that cleanup costs would be limited.

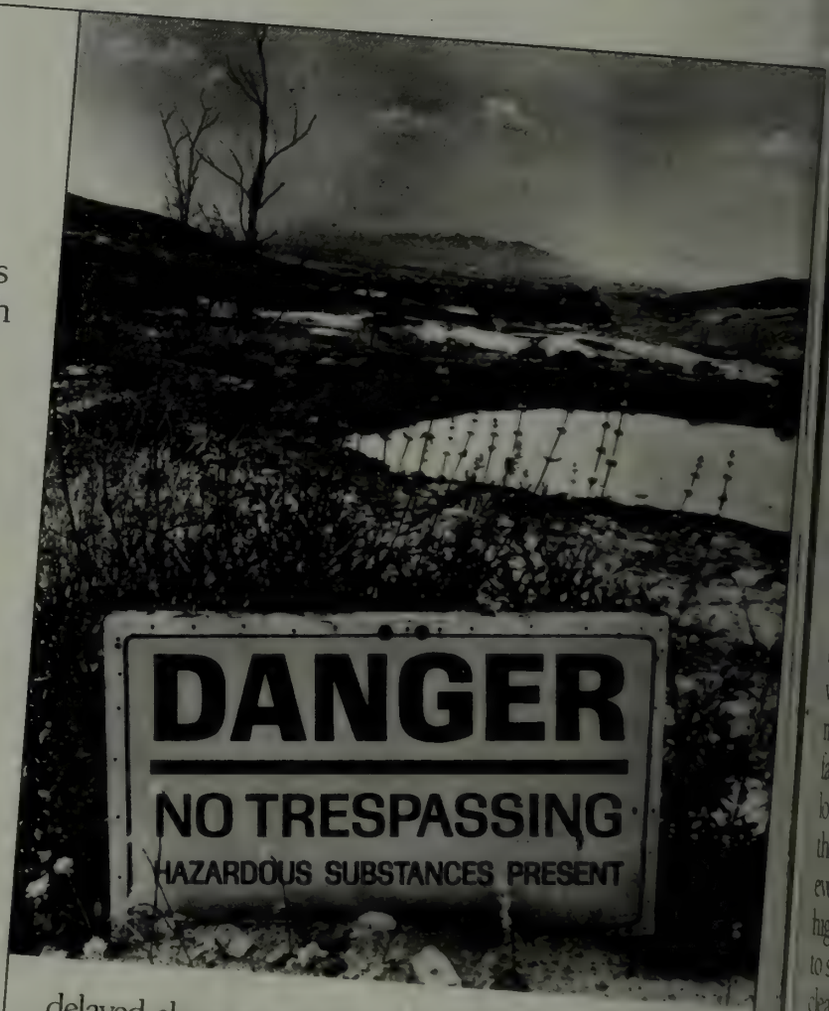
Now, after a decade of trying to make Superfund work, it's clear these assumptions were wrong and that a quick fix was never possible. What's wrong with Superfund and why has so little been accomplished?

The problem is twofold. First, the real scope of our nation's hazardous waste situation is far greater than Congress anticipated. With 1,200 priority sites already identified, growing numbers of sites are being found in every state. The Environmental Protection Agency expects that by the year 2000, there may be as many as 2,000 priority sites.

With rapidly rising cleanup costs, which now average about $25 million per site, the eventual price tag is staggering. According to a top government agency, cleaning up all of America's hazardous waste sites could take from 30 to 60 years and cost up to $500 billion!

A second problem is Superfund's alarming lack of progress in cleanup. A decade and billions of dollars later, fewer than 60 out of the 1,200 sites have actually been cleaned up.

Why? One major reason is Superfund's liability system. It requires that cleanup be paid for by establishing liability–who sent what waste, how much and where–and then negotiating or litigating with those believed to be responsible. While this sounds good in theory, it hasn't worked in practice. Instead, the result has been



delayed cleanup and enormous legal, consulting and other costs unrelated to cleanup.

Compounding the problems instead of solving them.

This is because working out who pays and how much for cleanup is very difficult. Under Superfund, anyone who simply used or owned the site at any time could be liable for the entire cleanup bill. Users can include major corporations, small businesses, local governments, hospitals, nursing homes, schools, even individuals. And it does not matter who caused the harm or whether they did anything wrong. Superfund's retroactive

y system to achieve
p of our environment.

liability provision makes parties pay for past actions based on today's standards.

For example, at 422 sites almost 14,000 parties have been notified that they could be liable. In turn, many of them are identifying still others who contributed in some way to the presence of waste at each site. And since Superfund liability deals with past waste disposal, the record of users can go back 25, 30 or even 40 years and can number in the hundreds.

The result? The focus on cleanup has been lost as private and public parties spend years in difficult but unavoidable negotiations and litigation, trying to work out agreements that would provide funds for cleanup. At some sites, more money has been spent resolving complex factual issues than on cleanup itself. This does a lot for lawyers and consultants, but very little for the environment. And of course, these costs are eventually passed on to all of us as consumers in higher prices for goods and services. Isn't it time to stop this wasteful process and get on with cleaning up our environment?

At AIG, we think so. There is little to be gained by arguing over waste disposal that happened long ago. America needs a system that will promote fast and effective cleanup, reduce unnecessary legal fees, spread the cost of cleanup broadly, and encourage responsible waste management practices today.

A PROPOSED SOLUTION: THE NATIONAL ENVIRONMENTAL TRUST FUND.

To accomplish this, we have proposed creating a National Environmental Trust Fund, similar to the National Highway Trust Fund. Its resources would be used exclusively for cleaning up old hazardous waste sites. Superfund's tough liability provisions would still apply for future pollution, as would all other state and federal environmental laws designed to promote responsible waste management.

One way this fund could be financed would be by adding a separate fee to commercial and industrial insurance premiums in the United States. Even a modest assessment, say 2% of premiums and an equivalent amount for self-insureds, would provide about $40 billion over the next decade - more than enough to clean up the 1,200 highest-priority sites. Without endless time and money spent on legal debates about liability.

A national advisory board consisting of private individuals, industry and public officials could be charged with overseeing the program. We also suggest giving consideration to establishing local technical monitoring committees in each community. These groups of local citizens, representatives of industry and others would work with the Environmental Protection Agency and their own state on the particular cleanup site - from the very beginning of the cleanup effort.

YOU CAN HELP.

We've waited long enough and spent enough money in the courtrooms. Now it's time for action. A cleaner America should be all Americans' shared goal and shared responsibility.

To express your views, or if you would like further information about AIG's proposed National Environmental Trust Fund, write to Mr. M.R. Greenberg, Chairman, American International Group, Inc., 70 Pine Street, New York, NY 10270.

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Robert Cohn had a new baby, a new company, a great product—and no orders.

Panic!

By Julie Pitta

TEN YEARS AGO Robert Cohn, an M.B.A. from Stanford, was a 32-year-old product manager with a Silicon Valley-based maker of computerized instrumentation equipment. He also had a problem. "I had a product that worked great in the lab," Cohn remembers. "But it blew up out in the field."

To fix the problem, Cohn called in Peter Olson, cofounder of Systems Industries, a self-taught engineer who has an M.B.A. from the University of Minnesota. Olson quickly redesigned the scale. No more blowups.

Impressed, Cohn suggested that he and Olson start their own company. Thus was born Octel Communications Corp. The Milpitas, Calif.-based company earned $18 million in the fiscal year that ended in June. It sold $160 million worth of voicemail systems; its nearest competitor, AT&T, sold about $120 million of voicemail equipment last year. But that's getting ahead of the story. Getting Octel to where it is took some doing—and some risk-taking.

Cohn and Olson seemed an unlikely pair. Cohn, a former McKinsey & Co. consultant, is intense and serious. Olson is a free spirit who once submitted a $1,500 receipt for cab fare (it covered his losses at the gambling tables during a Las Vegas trade show) as a joke.

But their skills meshed perfectly. Leaving as little as possible to chance, they drew up a list of technological areas in which to work—the list included robotics, microcomputers, medical instruments and telecommunications. After methodically working through the various things that could go right and wrong in the list of businesses, they settled on voicemail. "It wasn't the usual startup where a group of friends come up with an idea and go out and do it," Olson explains. "Octel was a calculated startup."

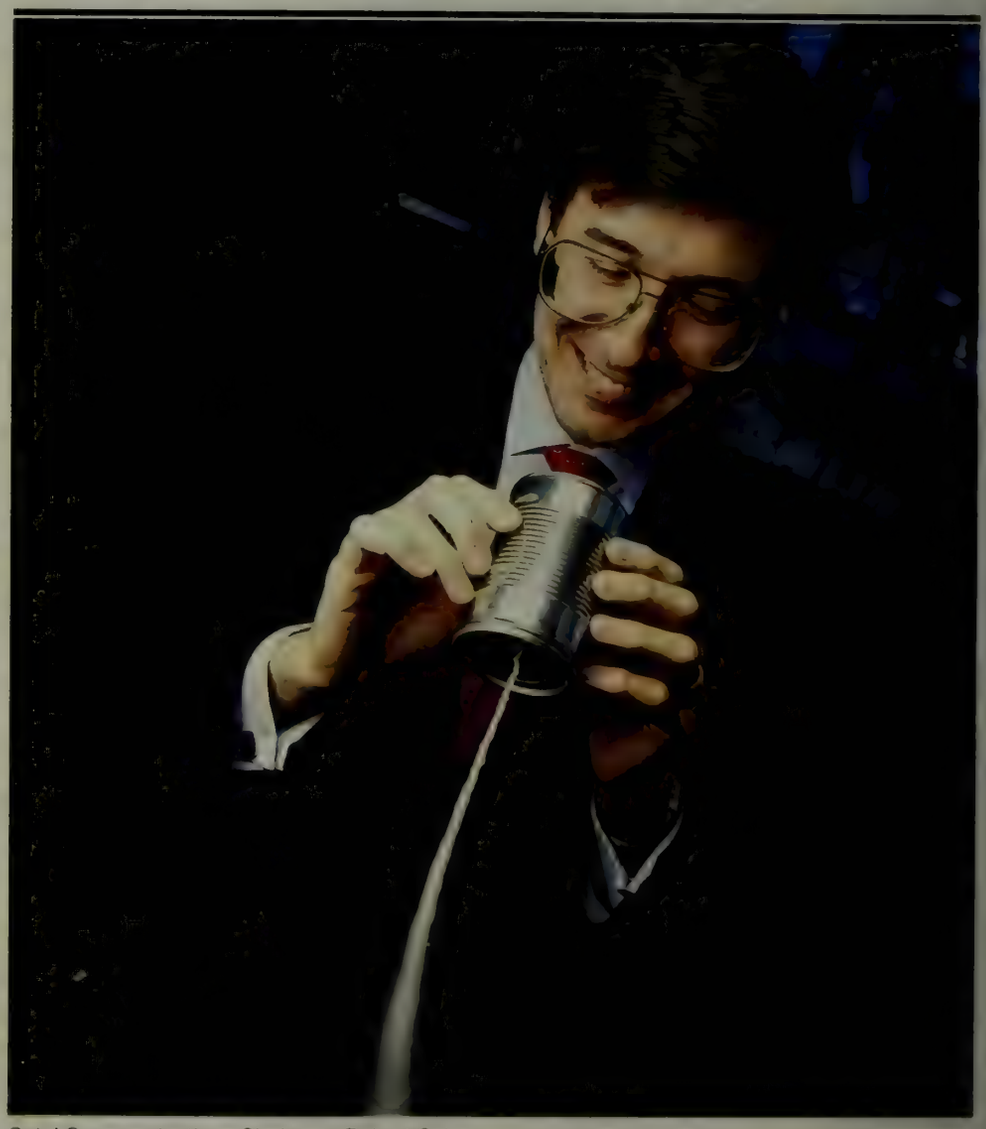
Why voicemail? "Big companies like IBM made these large, expensive [voicemail] systems that no one wanted to buy," Cohn recalls. "The smaller companies were not professional in the way they dealt with customers."

Once the partners defined the opportunity, Cohn, the marketing man, set the guidelines. Their machine had to cost about $10,000 to make and be able to sell in the $50,000 range—the little company would need fat margins to survive. The product also had to be small, taking no more than the space of a large closet. Most important, it had to be compatible with existing phone systems, meaning that it had to work with equipment from more than a half-dozen different equipment manufacturers, including Rolm Corp., AT&T and Northern Telecom.

"I didn't know if it could be done technically," Cohn admits. But Olson assured him it could.

With business plan in hand, Cohn approached Bay Partners, a Silicon Valley venture capital firm, in September 1982. Bay Partners agreed to put up $750,000 for a 26% share. Other investors put in a bit over $1 million. Cohn and Olson were diluted down to a 50% stake.

The dilution didn't bother the



Octel Communications Chairman Robert Cohn
"A lot of entrepreneurs worry about losing control. I think that's nuts."

partners. "I was thrilled that two guys with no track record and an idea that was unproven could get almost $2 million on the basis of a business plan," says Cohn.

With that cash in hand, Olson and his engineers finally gave Cohn what he wanted: The Octel system was about the size of a two-drawer file cabinet and, as Cohn had specified, could be produced for about $10,000 and sold for $55,000. IBM's competing voicemail system, by contrast, filled a small room and sold for $250,000.

By the spring of 1984, almost a year late and another $4 million in venture capital later, Octel's product was ready for market. But the market was not ready for it. By the fall of that year, only a dozen had been sold. Cohn was beginning to panic. "I had a new baby, and the company was going down the toilet and I didn't know why," he says.

He hit the road to talk to prospective customers and found another hole in his plans. Neither he nor Olson had realized that corporate purchasing departments generally take at least a year to place an order for a new system.

The partners cut costs drastically and trudged back to the venture capital well, raising another $7 million. Cohn's and Olson's stake in Octel continued to shrink.

The extra capital helped them get through a crucial year. Orders for Octel's system began to roll in in 1985, just as the voicemail market was taking off. The decision to go compatible was paying dividends. Octel's rivals sold only equipment-specific systems. AT&T's Audix voicemail system, for example, worked only with AT&T phone equipment; and Rolm's worked only with Rolm PBXs. But with a system compatible with many different phone systems, Octel could sell into a far larger market.

The company got a further boost in 1987, when a federal court ruling allowed the regional Bell operating companies to offer services like voicemail. Prohibited from manufacturing the equipment themselves, several of the Baby Bells turned to Octel. The following year Octel unseated IBM/Rolm as the leader in the fast-growing voicemail market. Octel's current market share, according to Probe Research, a telecommunications consulting firm: 20% and growing.

In February of 1988 Alex. Brown & Sons took Octel public, selling 15% of the company at $7 a share, raising $12 million. Recent price for the volatile, over-the-counter-traded shares: 19. Alex. Brown's telecommunications equipment analyst John Rohal estimates that Octel will earn $1.30 a share in fiscal 1992.

Last year Cohn stepped down from Octel's day-to-day operations, to spend more time with his three young children. He replaced himself as chief executive officer with Douglas Chance. Chance, 49, was an executive vice president and 24-year veteran of Hewlett-Packard Co. and an Octel board member since HP bought 10% of Octel in 1988. Chance led the rollout of a new Octel system last spring in an attempt to extend the role of voicemail. The system, known as Powercall, lets users access personal computers and fax machines over the phone from remote locations.

"Octel," says Chance, "is just like HP when I joined it." That may be a bit of an exaggeration, but you can't blame Chance for feeling high-spirited. How many nine-year-old startups can show the kind of profitability Octel can?

What with all the dilution, Cohn currently has just 1.6% of the stock, worth about $6 million; Olson has 2.1%, which is worth about $8 million. Are they miffed that they had to give away so much of the company to make it a success? "A lot of entrepreneurs worry about losing control and not making enough money," answers Cohn with a shrug. "I think that's nuts."

Douglas Chance, Octel's new chief executive
Can he lead the company beyond its entrepreneurial roots?

Original painting by Mark Hess

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TAKE ADVANTAGE OF CHANGE℠

Thanks to the government's new free-market policies, especially tax relief, and to debt swaps, Argentina's farm exports are heading up.

Viva las pampas!

By Joel Millman

PICTURE ARGENTINA—grasslands stretching to the horizons, real-life gauchos, steamy tangos. And steak. Lean and cheap. About $6.50 a pound for the best.

Yet such were the imbalances and distortions caused by decades of statist governments that little of Argentina's beef was exported, leaving gauchos unemployed, huge stretches of pampas uncultivated.

All this is changing. Argentina's agricultural exports once made it one of the most prosperous nations on earth but languished after populist dictator Juan Perón brought statism to the country nearly a half-century ago. Now the heavy hand of the state is being lifted, and Argentinean agriculture is coming out of its long sleep. The government of President Carlos Saul Menem is in the process of eliminating the tax on agricultural exports, which has been as high as 25%, giving farmers new incentive to export and to invest in their properties. It is also eliminating export duties levied on processed foods, which has been as high as 15%.

Agricultural exports are starting to rise. Some of the increase has come from processed foods, like soybean meal and vegetable oils, which produce more revenues and more domestic jobs than do exports on unprocessed wheat and beef. Processed foods now account for more than half of agricultural exports.

Processing food requires lots of capital. Some of the capital to expand production has come from debt-for-equity swaps, which were first encouraged by the previous government when Argentinean debt was cheap *(see p. 44)*. Foreigners buy Argentinean dollar debt at a discount and convert it into australes at a rate closer to face value. They then use the australes to invest in local businesses.

For processing beef
Built by Campbell Soup in Rosario, Argentina, with the help of a debt-for-equity swap, the plant is state-of-the-art, the first in 20 years.

In 1989 Camden, N.J.'s Campbell Soup Co. was one of the first multinationals to avail itself of the opportunity. Through its wholly owned local subsidiary, Swift-Armour Argentina, it arranged a $60 million debt-for-equity swap to build a new meatpacking plant in Rosario, the "Chicago of Argentina," in the heart of gaucho country.

Campbell purchased $60 million worth of Argentinean foreign debt paper at the world market price of just 17% of par. Argentina's Central Bank offered to redeem that paper at a rate of nearly 30 cents on the dollar, provided that Campbell used the cash to build the Rosario facility. The debt-for-equity swap saved Campbell $8 million and gave Argentina its first state-of-the-art beef processing plant in 20 years.

"We're the U.S.' largest user of cooked beef from Argentina," says Robert Subin, president of Campbell's Latin America and Asia division. "The way we're structured there now, I don't think anyone can beat our competitive advantage."

The U.S. isn't the only market. The prosperous Pacific Rim "tigers" are becoming big importers of food from South America. Campbell Soup is also marketing directly to Argentinean consumers. Its Swift-Armour subsidiary is expected to do $40 million in Argentina this year.

Campbell Soup is not alone. Louis-Dreyfus, the big commodities trader, engineered a $30 million debt-for-equity swap to build a soybean-crushing facility near Rosario. National Sea Products, a Nova Scotia-based fishing company, arranged a $10 million swap with a local partner to finance

auchos at work on the pampas
rgentina's new free-market policies ean more employment for the men who ok after the cattle on the country's ast, rich grasslands.

ne construction of four new trawlers. itibank, holding more than $1 bil-on worth of Argentinean paper in its wn loan portfolio, unloaded $55 illion worth to buy the bankrupt anta Elena, a meatpacker outside arana. Other U.S. outfits investing n Argentinean food processing in-lude ConAgra, which is building a oybean-crushing facility in partner-hip with the Argentinean petro-hemicals and construction conglom-rate, Pérez Compac. Continental Grain is also broadening its activities rom simple commodities trading and rocessing to off-season production n a joint venture with a local compa-ny to export fresh citrus fruits.

Forestry is another area where Ar-gentina's low-cost potential ought to nterest foreign investors. Citicorp Capital Investors, an investment arm of the bank, formed a consortium with local investors to purchase La Celulosa, the country's biggest pulp and paper producer, from Argentina's state-owned National Development Bank. Under the new private ownership, management runs the company free from government interference. "It was trading trash for trash," says La Celulosa's finance chief, Enrique Dietl, of the debt-for-equity deal. "We traded a $150 million IOU for a $450 million IOU, but we got a chance to run the company."

As in the best buyout deals of the 1980s, Citibank cut the payroll by a third, brought in new management and engineered an impressive turnaround. From $120 million in revenues, and losses of some $35 million in 1990, Celulosa has increased sales by 25% (to $150 million) this year, paid off the remaining debt and is at break-even on the balance sheet. Now Celulosa is one of the resurgent Buenos Aires Bolsa's hottest stocks—its share price has risen from $1.80 to $5 in less than 12 months. Citibank's original bet has paid off handsomely.

Not surprisingly, Citibank is looking to use a second debt-to-equity swap to buy another bankrupt pulp producer, Celulosa Puerto Piray, potentially an even bigger winner than the first deal.

Thus ends on a happy note the long, long nightmare of state socialism, wherein a populist government burdened the productive sector to provide goodies for the bureaucracy and the less affluent. In the end, everybody lost. First the productive people lost, ultimately the less affluent and even the bureaucrats. A society more preoccupied with sharing the pie than in baking it ends by ruining the pie. ■

It claims to be the world's richest corporation. Ah, our old friend Branch Vinedresser again.

King of the seven seas?

By William P. Barrett

Patrick McDonnell

THE Securities & Exchange Commission doesn't get many documents like this. An o-t-c company called Currentsea filed an 8-K in July claiming to own 10% of the world's oceans. What's that worth? Well, according to the filing, "in excess of a trillion" dollars.

Stay with us on this one. Currentsea says its 10% stake came from something called Oceanus, an environmental group claiming to be the "government of the global ocean." Oceanus asserts ownership over the other 90% of the open seas, plus 95% of Currentsea. There's more. Oceanus plans to levy a $1 fee on each barrel of offshore oil, with Currentsea getting 28% if it does the collecting. That's on the come, of course. The company's unaudited June 30 balance sheet lists $386 in cash and "no material operations."

Yet there are investors out there who apparently will believe just about anything. Three pink-sheet market-makers—Olsen Payne, Wilson-Davis, both of Salt Lake City, and Paragon Capital, New York—handle the stock on the OTC Bulletin Board and say trades occur regularly. They now quote Currentsea's 3.02 *billion* shares at 3/16 bid. This values the company at a staggering $566 million.

When the SEC gets around to looking into this deal, here's what the agency will find: The behind-the-scenes influence at Currentsea is none other than Branch Vinedresser, the architect of the mysterious Dominion of Melchizedek (FORBES, *Jan. 7*), that self-proclaimed country whose banks, accounting firms and officials bless billions of dollars in worthless securities. From his base in Incline Village, Nev., Vinedresser tries to create the appearance of real markets through a myriad of corporations and fax machines around the world.

The creator of Oceanus, however, is someone else: Edward R. Welles III, 50, an environmental zealot from Manset-Seawall, Me., near Bar Harbor. He started Oceanus in 1970 to protect the oceans—hoping to fund the entity by a tax on offshore drilling and mining. Locals consider Welles sincere but a tad daffy. He calls himself "Admiral" and says he was George Washington in a previous life.

Welles and his undercapitalized vision limped along for two decades with an occasional profile in the press. Then one night in January Vinedresser called to offer a brighter financial future.

That future involved a dormant Nevada-chartered shell company publicly traded since 1987, first as Covington Capital Corp. and then as Southern Land & Exploration. Via some German investors and a questionable Florida broker, Southern Land's previous Dallas-based management sold the company this spring to what became the Vinedresser-Welles group. Price: the assumption of $33,000 in liabilities and no cash. The company renamed itself Currentsea, relocated to Maine, and promptly issued 3 billion new shares. Two Vinedresser-controlled organizations got 50 million of them.

Welles is listed as Currentsea's president, secretary and treasurer but says he relies on Vinedresser for advice. Vinedresser helped draft SEC filings and got his Austin, Tex. lawyer, Kenneth Kirk—who was also appointed Melchizedek's "U.N. ambassador"—to write a legal opinion endorsing Oceanus' sovereignty. That's on file at the SEC, too. Vinedresser also showed Welles how to churn out electronic press releases and place ads touting Currentsea in *Barron's*.

At Vinedresser's suggestion, Oceanus recently printed $575 million worth of its own "currency" and, through Vinedresser's dubious Banco de Asia, managed to get it listed on Reuters' Money Service electronic database, under the symbol BYNV. Welles says Vinedresser financed the printing and got $5 million of the colorful new bills, which feature drawings of birds and fish. Welles signed the SEC filings, which do not mention Vinedresser. Key tip-off to his involvement: One of Currentsea's new directors is Vinedresser sidekick Richard Thomas. Thomas is bizarrely described in one filing as having "boating experience."

What kind of due diligence did Welles conduct on Vinedresser before becoming associated with his project? "I consulted the spirits," Welles says. Would any investor in his right mind get sucked in on this one? If experience be guide, yes. Unfortunately. ■

Jerry Sanders broke mighty Intel's monopoly in microprocessors. But that's a battle won, not the war, for his Advanced Micro Devices.

Live by the clone, die by the clone

By Julie Pitta

"IT'S GOING to be a fortune maker," says W. Jeremiah (Jerry) Sanders III, 55, the chairman of Advanced Micro Devices, with characteristic bravado. Sanders hopes to reverse AMD's sagging fortunes with his knockoff of Intel's 80386, probably the most lucrative chip in the history of the semiconductor industry, and the subject of four years of legal tussling between Intel and Advanced Micro.

Sanders won one battle: A federal court decision last March invalidated Intel's trademark on the 386, allowing Sanders to call his clone the AM386. But a tangle of litigation remains to be sorted out. More important, the 22-year-old Advanced Micro Devices has to contend with copycats itself: If AMD can clone, so can its competitors. In short, it is a little early for Jerry Sanders to be counting his fortune.

Advanced Micro shipped samples of its first 386 clone almost a year ago, four months before the court victory. To date, AMD has sold just over $100 million worth of the chip. That is only about 10% of AMD's revenue, but it may account for more than half of the company's profits. After posting a $54 million loss on $1.1 billion in sales for 1990, Sanders' firm is again profitable. The stock price has rebounded to a recent 9 a share, from a low of just under 4 a little less than a year ago.

"My strategy is the transformation of AMD," Sanders says. "The 386 plays a vital role in that. It's the centerpiece around which we build."

Therein lies the problem: Although the 386 has revived AMD for now, the company has become overly dependent on a single, vulnerable product. Even with 386 sales growing, sales and earnings for the quarter ended Sept. 30 dropped, burdened by the rest of AMD's marginally profitable product line. Meanwhile, AMD's war with Intel continues in the courts, at great expense to AMD: $40 million, or 3% of total sales, over the last 18 months for legal fees.

Does AMD have the right to publish Intel's microcode, the software that allows the microprocessor to distinguish a word processing program from a spreadsheet? This crucial issue is yet to be decided by the courts.

Intel has shipped 14 million 386 processors since 1985, according to market research firm Dataquest. It shows no signs of resting on its laurels, threatening its archrival far beyond the courtroom. Today an Intel 386 running at 33 megahertz sells for about $200, a 23% reduction from its price 18 months ago. A slightly faster AM386 sells for $190. AMD touts its

Gary Gladstone

"Centerpiece around which we build" **AMD's ebullient chief, Jerry Sanders, holding Intel's 386 chip (left) and AMD's clone (right).**

386 as low-power, saying it's ideal for the battery-run portable computers—one of the few bright spots in the slumping personal computer market. Intel has fired back with a low-power version of its own.

Two years ago computer makers were screaming about Intel's inability to supply enough 386s. They aren't complaining now. "We were feeling a real pinch earlier this year," says Theodore Waitt, chief executive of Gateway 2000, a North Sioux City, S.D. assembler of low-priced computers. "The shortage seemed to clear up dramatically once AMD began shipping." While Waitt may be thrilled that AMD is giving Intel a hard time, so far he hasn't thrown any business AMD's way.

AMD lists 42 customers that have purchased its AM386, but only 2 of them, AST Research and Tandy Corp. subsidiary Grid Systems, are top brands. Missing are companies like Compaq Computer, Zenith and Toshiba, the leading manufacturers of portable computers. "It takes a lot more to manage two sources than one," says Hugh Barnes, product development vice president for Compaq. "Intel's been very aggressive on price. We'd need a compelling reason to look for a second supplier." AST and Grid use the AM386 in a single model each, refuting AMD's charge that Intel has threatened to cut off any customer that buys a 386 from AMD.

Now Sanders has to contend with other knockoffs. Chips & Technologies recently introduced its own 386 clone, priced at $180 for a 40-megahertz version. Another copycat is probably about to pounce: Cyrix, a Dallas-area startup; others are expected to follow. Both Chips & Technologies and Cyrix work by coming up with chip designs and contracting out the manufacturing to fabrication houses, mostly in the Far East. Unburdened by AMD's overhead, they will wage a savage price war. "I'd like it if the newcomers didn't muddy the waters," says Sanders. "You can't compete with a fire sale. All you can do is hold on."

Sanders' response: Important customers will eschew the "Johnny-come-latelies" in favor of "quality" suppliers like Intel or AMD. I sell genuine copies; those guys sell fake copies. It's a difficult selling point. Outfits that sell low-cost PCs will likely gravitate to the component seller with the best price.

Here's something else for Sanders to worry about. AST is selling an awful lot of computers based on Intel's next-generation microprocessor, the 486. In the last quarter AST shipped 11,000 of the 486 PCs, behind the 77,000 total for 386-based machines but gaining rapidly. Sanders doesn't have a 486 clone available. It could take him years and hundreds of millions of dollars to get one.

"The 386 will be the dominant processor for the balance of this decade," Sanders maintains. But graphical software, like Microsoft's popular Windows and all the packages being written to run with it, has an insatiable appetite for computing power. AST's cofounder and chief operating officer, Tom Yuen, expects 486 PCs to surpass 386 PCs in two years, a phenomenon that will be hastened as Intel offers better prices on the new processor, as it gears up to deliver yet another, its superfast 586.

Sanders is the best salesman in the chip business. That may not be enough.

(Ring, Ring) What time is it there? OK, I'm in Denver, that's Mountain time, so it's after five. I wonder if Jan's in. (Ring, Ring) I wonder if Wright called. Oh-my-gosh and Richard Terry. (Ring, Ring) C'mon, c'mon. I wonder if marketing got to the West proposal. I need to know if the Brown thing's a go because then the Callen thing's a no-go. And if that changes then my trip to Richmond changes, (Ring, Ring) I wonder why janitors can't pick up phones.

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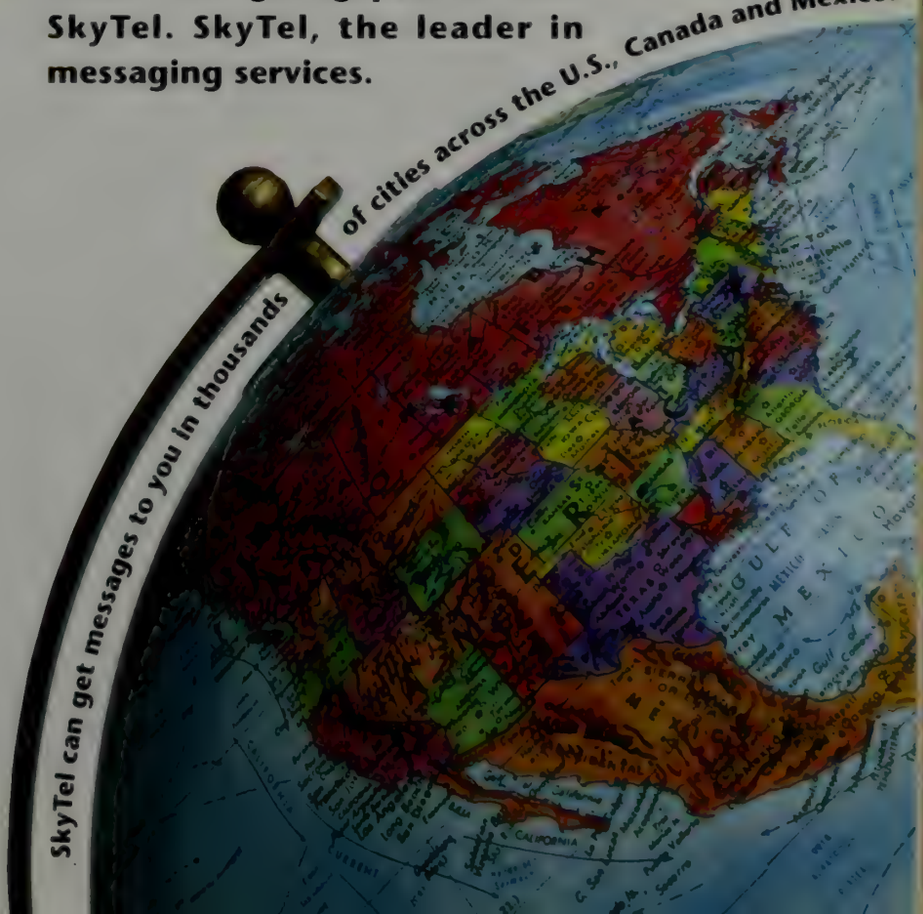

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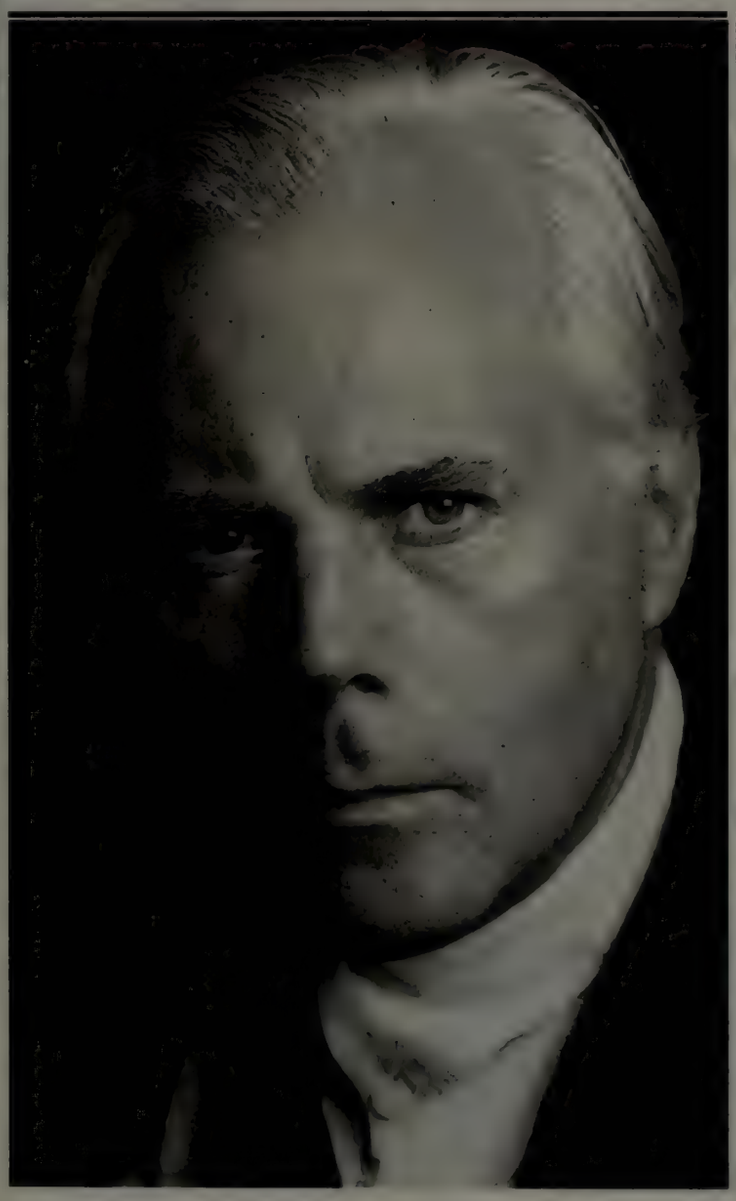
The world knows Giorgio Armani as the man who pioneered the natural look in clothes. He's also one of the sharpest businessmen you are ever likely to meet.

"Dare e togliere" (give and take away)

By Joshua Levine



Aldo Fallai

MINUTES BEFORE a formal dinner was to begin in Giorgio Armani's cool, spare Milan apartment, there was the celebrated designer placing flowers on the table, one by one, to achieve the perfect haphazard look. The arrangement was meant to appear unplanned, but the execution was meticulous—just like the tablecloth, napkins and quilted seat coverings Armani also designed. All these details—down to the last flower petal—are slavishly imitated by his employees when they entertain in other cities.

This is the way Giorgio Armani runs his life, designs his clothes and manages his hugely profitable business—flower by painstaking flower.

In public, the 57-year-old billionaire designer/businessman comes off as cool. But that's a cover. He is really a tightly wound man, a demanding micromanager who can explode if he finds a single thread out of place. There is no aspect of his $306 million (1990 revenues) privately held Giorgio Armani SpA that he overlooks. It's all his, after all; he owns 100% of it.

At Saks Fifth Avenue in New York, an Armani representative trolls the in-store boutique weekly—changing layouts and making sure the merchandise is displayed exactly the way Armani wants. Most designers don't do that. And when Saks' Houston Giorgio Armani Boutique fell short of Armani's minimum sales requirement last year—$750,000—Armani decided simply to shut it down, even though he will lose sales and profits in doing so. "They insist on being successful," says Larry Wilsman, a Saks buyer.

You can attribute this insistence on 100% success to pure ego, but in Armani's case it seems to be good business.

"My faults and my virtues are the same, whether as a designer or as a businessman," says Armani. "Nothing is ever enough. I must check everything. It causes me problems—people think I don't trust anyone. But I must know what's going on."

There's a lot to know and keep track of. Last year people

spent about $1.6 billion for Armani-brand clothing, accessories, eyeglasses and perfume—$654 million at wholesale. The Armani company had revenues of $306 million: $130 million from royalties and service fees from licensees; $160 million from wholly or partly owned retail shops; $16 million from manufacturing operations. It was an immensely profitable business, netting after taxes $54.2 million, an impressive net margin of 18 cents on the revenue dollar.

Margins at Armani's retail shops are staggering. People are willing to pay for the Armani look and the Armani label, and Armani makes them pay. "In high-end specialty stores, you're doing very well indeed if you walk away with 50%; 67% is the moon," says William Flatley, director of retail strategy at consultant Kurt Salmon Associates. Clearly, Armani owns the moon. Giorgio Armani Boutiques, which sell the designer's most expensive clothing, claim margins of 55% in Europe, 60% to 67% in the U.S. Armani owns 14 out of 35 of them directly or in joint venture. Emporio Armani stores, of which Armani owns 19 out of 110, show 50% margins in Europe, 55% here.

Armani's company carries no debt and has $72 million cash on hand. Valued at a conservative price/earnings multiple of 14, the business alone is probably worth about $750 million. Add in his financial stake in the manufacturing operations of his licensees, and he's either a billionaire or so close to one that the difference doesn't matter.

At a time when the fashion business is no longer feeling its hautes, Armani still rides high. Many high-fashion brands of the 1980s are sagging in the 1990s. By one estimate, sales of quality ready-to-wear brands are down some 25% in the past three years.

Armani? No sag there. In September Saks Fifth Avenue sold $400,000 worth of Armani's Borgonuovo women's wear—his most expensive line. That's up from $300,000 in September 1990. If the well-to-do are economizing these days, they don't seem to be cutting back on Armani's $6,000 evening dresses or his cashmere men's blazers at $1,300. "He's built a cult following," says Alan Dumain, senior vice president and general merchandise manager at Saks.

Like most highly successful businesses, Armani's owes much to a shrewd and successful gamble. In the late 1970s Armani made a bold move. Discarding fashion conventions, he stripped the padding from the traditional men's suit jacket and changed the way men wear clothes. Armani's looser-fitting jackets and slouchy pants softened the starchy business suit. So long, striped ties and knife-edged creases. Hello, *Miami Vice.* "Armani contrived a new vitality for the suit," says Richard Martin, a curator of last year's Armani menswear retrospective exhibition at the Fashion Institute of Technology. "It's a new uniform."

Lots of others now make similar uniforms, but the purists still insist on the original.

Michael Levine, 30, a Toronto set and costume designer, dropped $899 for a black Mani suit, Armani's least expensive line. "I thought it was a ridiculous amount of money, but I love it. It's beautifully cut, the material is fabulous. I wear it in situations where I would never have worn a suit before," he says.

Again, when Armani applied his menswear sensibility to women's clothes, he confronted a design tradition rooted in vanity and offered instead self-assurance and comfort. Says

Armani at work in his private theater **An obsessive attention to every detail.**

Designs from Armani's fall men's collection **Defying convention in the late 1970s, Armani stripped the padding from the traditional men's suit jacket and changed the way men wear clothes. His looser-fitting jackets and slouchy pants softened the starchy business suit. So long, striped ties and knife-edged creases. Hello, Miami Vice.**

Armani: "I don't like women who say, 'I'm beautiful, look at me.' "

Consider what Armani did to pockets on women's slacks. They used to be shallow and tight so as not to destroy the sleek silhouette. Armani designed manly pockets women could sink their mitts into.

Dawn Mello, creative director and executive vice president of Gucci, is a passionate Armani pocket thruster. She says: "There are no gimmicks—his clothes have breeding."

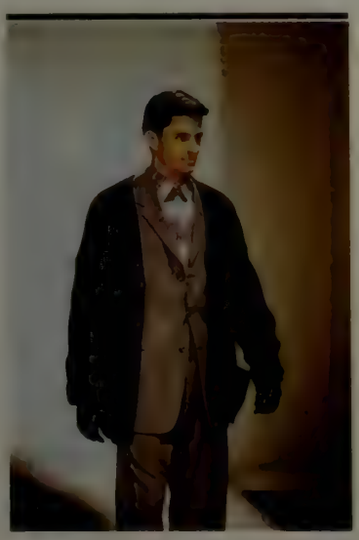
The breeding is scarcely the product of a long tradition. Fifteen years ago Armani was a freelance designer. In 1975 Sergio Galeotti, a businessman and longtime friend, convinced Armani to go into partnership with him. The story goes that the two sold their used Volkswagen for startup money and took an office in Milan's Corso Venezia—still preserved as a sort of shrine.

Armani's look proved just right for the time. The loose Armani look generated an impressive $1 million in sales their first year.

The business grew steadily from there. Galeotti, a canny Tuscan, took care of the business end while Armani cut the clothes. But Armani was no impractical artist. He was not content to design and leave the business to others. "Sergio protected me from lawyers and accountants, but even then I knew I would have to learn the business," recalls Armani. "I'm not selling an idea of creativity, I'm selling clothes, and for that you have to be out in the market."

A good thing for him. In 1985 Galeotti died of cancer, bequeathing Armani his 50% share in the company. Armani was shattered emotionally but sublimated his grief in action. The year Galeotti died, Armani began broadening Emporio Armani from what was basically a jeans outlet to a full line of sportswear that has grown from $75 million to $209 million today. "After Galeotti, most people said, there goes the ball game," says Dawn Mello. "Giorgio was a surprise as a businessman. He's taken the company a lot further than anybody thought possible."

Armani no longer has his old friend to buffer him from the accountants and the lawyers; he deals with them himself, aided by a small coterie of close aides. There is commercial di-



rector Giuseppe Brusone and financial director Giuseppe Volonterio. Giorgio's sister Rosanna heads the in-house advertising company. Gabriella Forte serves as an all-purpose adviser who seems to be the only one who can regularly say no to the sometimes overbearing Armani and get away with it.

Meetings resemble an Italian family argument more than a sedate board of directors meeting. Debates are often conducted in a high-volume barrage of passionate exchanges, complete with arm-waving. "You should see us when we really fight," says Forte. But there is a samurai code of loyalty. "People on the outside think we're like Moonies," says Forte.

One thing they are most definitely not is playboys and playgirls. Most days you can find Giorgio Armani at 21 Via Borgonuovo, which houses his office, his stylist operations and the theater where he stages his fashion shows. He practically lives in the office, since the apartment he shares with five cats is in the same building.

"He hates to travel, he has few interests and he works like a dog," says a former employee. Armani says his passion for work is not inborn but forced upon him by the circumstances of his success. "I am not permitted to live a different kind of life," he sighed during a recent lunch in his apartment. "Right now, the company needs me to do this. Later on, maybe it will be different."

After lunch Armani hurriedly ducked through a mirrored panel to head down to his theater, where he was preparing for a showing of his spring/summer Borgonuovo women's collection on Oct. 10. For his shows, Armani doesn't just drape his models and propel them down the runway. He orchestrates and fine-tunes the lighting, the music, the choreography, the decor. Every aspect of the presentation bears his personal stamp.

Unlike many "designers," Armani puts his personal touch on much of what bears his name. A typical Giorgio Armani women's line includes about 2,200 pieces, and Armani has a hand in designing all of them. Not to mention overseeing the operation of the Emporio Armani outlets and Armani Boutiques, where even the clothes hangers are specially crafted according to two different Armani blueprints.

When he isn't fussing over details, Armani is planning expansion. The

From Armani's fall collection for women

When Armani applied his menswear sensibility to women's clothes, he offered self-assurance and comfort. "I don't like women who say, 'I'm beautiful, look at me,' " says Armani. Gushes Gucci's Dawn Mello, an Armani fan: "There are no gimmicks—his clothes have breeding."

Federica Charles

New A/X jeans and casual clothes **Accessible Armani—but not too accessible.**

company will launch A/X, which stands for Armani Exchange, a new chain for blue jeans and casual clothes priced at around $100. This moves the label considerably downscale into the mass market. But not too mass. The jeans will run around $55 to $95, T shirts from $28 to $75, and informal sweaters from $90 to $125. It's hard to imagine anyone paying $75 for a T shirt, but Armani is counting on the glamour of his name. The first A/X store is due to open in New York's Soho neighborhood in December. "Dare e togliere," says Armani, who speaks no English, in describing his move downscale. That means to give and to take away. "I will give them jeans but at very few outlets," he explains. "It's important to maintain Armani as an elite brand." Translation: Armani wants a small piece of the lower-priced clothing market but only as much of it as will give him the profit margins he is accustomed to.

"Dare e togliere" characterizes much of Armani's ruthlessly controlled distribution. When Giorgio Armani finally opened Armani Boutiques in West Germany last August, he took the Emporio Armani line from 150 clients and the Giorgio Armani line from 10 clients who had distributed it before—to give his line more cachet and keep his clothes more exclusive.

Similarly, all his licensing contracts include a maximum limit in dollars and units on how much the licensees can sell. "That's unique," says Gucci's Dawn Mello, who is now trying to clean up after Gucci's own promiscuous overdistribution during the 1980s (FORBES, *Oct. 15, 1990*).

Armani keeps his licensees on a tight leash. Luxottica Group SpA got the license to make Giorgio Armani Occhiali—eyeglasses—in 1987, and the brand's sales rose from $24 million in 1988 to an estimated $64 million this year. Luxottica went public in 1990, but not before giving Giorgio Armani an extra cut. In return for letting the new public company keep the license, he insisted on 2% of the stock. The stock went from 19 to 46¼ in a little over a year and a half.

Licensees are required to funnel 5% of sales to fund Armani's advertising and public relations—through Armani's in-house advertising and public relations agency. Armani, of course, takes the commission for handling the $28 million its licensees spend annually on marketing. What for most companies is an expense is income for Armani.

Armani grooms his own image just as carefully. On a table in his apartment lies a snapshot of Armani lounging with actress Michelle Pfeiffer and friends. The photo is casually conspicuous. Says Forte: "I cannot distinguish any longer what is Armani and what is the Armani mystique."

Giorgio Armani SpA has been integrating backward into manufacturing as well as forward into retailing. Two years ago it bought 100% of Antinea, gross sales $25 million, which makes Emporio Armani women's clothes, and 51% of Intai, $16 million gross sales, which makes Armani ties. This year Armani will take over manufacturing for Emporio's men's clothes.

So Giorgio Armani is not yet ready to put his feet up on his eggshell ottoman. He's already thinking about how to enter the home design business, but only if he can translate his fashion hallmarks of comfort and functionality to the field.

"When I go to bed, I sometimes say, 'This is ridiculous,' " Armani confesses. "But then when I wake up I say, 'Where are we going next?' " Where, indeed?

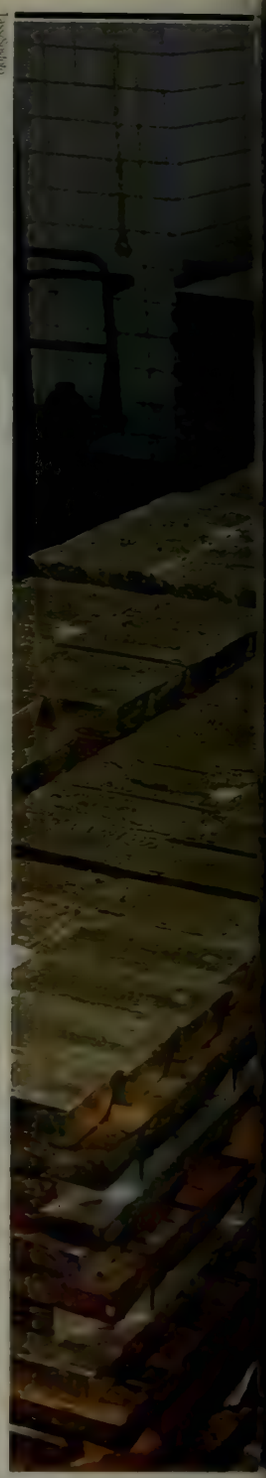
The Soviet Union is not as broke as it pretends. Stolen by the Communist Party, substantial assets exist both abroad and at home. Where? Ask Oleg Shenin.

Man in the shadows

By Vladimir Kvint and Natalia Darialova

Tass/Sovfoto

LEFT: Party Secretary Oleg Shenin **Though not one of the gang of eight, he is behind bars in Moscow.**



Tass/Sovfoto

RIGHT: Silver ingots stored for the state fund of the U.S.S.R. **Central Committee functionaries could and did help themselves to the treasure.**

THE SOVIET UNION announced late last month that it has only $3 billion in gold reserves. Westerners were stunned. What happened to all those tens of billions of dollars' worth of gold the CIA and other analysts had assumed existed in Soviet vaults?

The standard answer is that the Soviets spent it, especially after their oil revenues dropped. We think the standard answer is incorrect. Not all the Soviet gold was spent. A lot of it remains, but in private names and in private bank accounts.

I (V.K.) worked in the Soviet gold and silver industry for many years. Knowing how the metals are produced and where they go, I estimate that at least 60 tons of gold, 8 tons of Norilsk platinum and not less than 150 tons of silver were hidden abroad at the order of the Communist Party. We're not talking about peanuts.

This is without counting diamonds of more than 10 carats, which the U.S.S.R. has been mining but hasn't been selling in the world markets for over 45 years. In theory they were held at the "Third Department" of the U.S.S.R.'s Ministry of Finance, known under the name "Gokhran" (State Guard). In practice the Communist Party and the Central Committee functionaries could and did help themselves to these diamonds.

By our estimates, between $15 billion and $50 billion of Communist Party money sits, like the lost treasures at the bottom of the ocean, in the safes of Western banks.

So the Soviet Union is not as broke as it pretends. As with a lot of Latin American countries, what should be its reserves instead sit in private hands in foreign banks.

Further, we think this buried capital was a factor in the unsuccessful coup against Gorbachev on Aug. 19. According to the official account, the leader of the coup was Vice President Gennady Yanayev. But in spite of his cunning, he is a rather shallow man, overly fond of vodka. He couldn't conspire his way out of a paper bag.

Then who was the real ringleader? His name is Oleg Shenin, 54, a member of the Politburo. Shenin's name has not yet been publicly linked to the coup, but he was arrested in Moscow soon after the coup failed and is now behind bars.

I have known both Yanayev and Shenin for 20 years. Unlike Yanayev, Shenin is razor-sharp and persistent in reaching his goals. As secretary of the Central Committee, he controlled at least $15 billion worth of secret Communist Party deposits in Western, mainly Swiss, banks.

Always a man in the shadows, Shenin was in charge of the country's two most powerful institutions: the KGB and the army. He is a man who believed that arrows from the dark hit better. So he preferred anonymity even though both the former KGB chairman, Vladimir Kryuchkov, and the former defense minister, Dmitri Yazov, reported to him.

Equally important, Shenin controlled the Communist Party's money. He was to the Communist Party what Martin Bormann was to Hitler's National Socialists.

One other man had a hand on the purse strings. He was a party functionary named Nickolai Kruchina. Since 1983 Kruchina ran the *Upravlenie delami*—the Business Management Headquarters. That organization controlled billions of dollars' worth of the party's money, mostly in publishing houses, real estate and cash.

Where is Kruchina now? In a better world. Four days after the coup and after the frantic flights between Moscow and the Crimea, Kruchina made his last flight—out of the fifth-floor window of his apartment. Did he jump? Or was he shoved? It's not clear. What is clear is that he knew too much for his own good. So now only the jailed Shenin—and perhaps Gorbachev—knows where the money is.

It boils down to this: The Communist Party's head is dead, but its body still lives. It is one of the world's biggest financial corporations. A burglar and exploiter, for 74 years the party has ignored any distinction between its own and the state's pockets.

In 1991 the Law on Property was adopted in the U.S.S.R., ending the state's monopoly on property. That should help Boris Yeltsin and others who have been demanding that the party hand over its assets to the republics. Seeing this coming, since 1989 the big-time party players have been illegally transferring money abroad.

Of course, not all of the gold stolen by the party is abroad. Much of it is at home. Like any gangster, the Communist gangsters now face the problem of laundering their illegal domestic wealth.

One of my clients, a very large American multinational corporation, recently had a taste of this. It was approached by a Soviet man who claimed he was a president of a large new concern. He had a reference letter from Gorbachev's closest party friend. I soon discovered that the alleged Soviet company was not registered as a company and didn't have

LEFT: Mikhail Gorbachev
ABOVE: Boris Yeltsin
Gorbachev may know where some of the party's booty is; Yeltsin wants to know.

the right to participate in foreign economic activity. However, the letter from Gorbachev's friend meant the party was involved. Party members were trying to launder assets by creating a joint venture with a legitimate foreign company. A similar unregistered concern, blessed by the Soviet state bank, tried to sell a U.S. company several billion rubles for dollars at a price lower than the official rate.

Some of this laundering has already been exposed. When Germany was uniting, the German communist party started moving its valuable new currency outside the country. (West German marks and East German marks were made equal.) This money was invested in businesses, often through joint ventures. One of them was revealed in a Russian newspaper. Putnic, an office-construction firm, was a joint venture between the Soviets and a Cyprus holding company. Where did the Cyprus partner's capital come from? Answer: from those East German party hacks bearing valuable deutsche marks.

One Japanese pharmaceutical company won enormous privileges in the U.S.S.R. I learned why: The company helps finance the Japanese Communist Party.

All this activity was directed by Oleg Shenin.

Before the coup one of the U.S.S.R. government's newspapers published memoirs of a Soviet spy family. As part of its cover, the family owned companies in the U.S. and in Western Europe. Where did the initial capital for the companies come from? From the KGB. I am sure that this is just one piece of a huge financial iceberg the KGB had built in the West under the wise leadership of the Communist Party, and of the party's KGB overseer, Oleg Shenin.

Foreigners doing business in the former U.S.S.R. should be careful about prospective partners, who may be fronts for old party interests or who actually may have stolen money rightfully belonging to the Soviet state or one of the former republics. Komsomol, the party's youth branch, is now officially dissolved, but before it went, a lot of its assets leaked out. For instance, it invested 250 million rubles in a new bank, Finist. Now Komsomol is abolished. Who will be getting the interest on the investment? Interesting question.

The new governments, especially Yeltsin's in Russia, are going after this stolen—or misplaced—money. Last year the Communist Party tried to transfer one of its central Moscow buildings to a Soviet-Swiss joint venture called Link. Its principals on the Soviet side included people connected with the party. Then the democratic Moscow City Council threatened such joint ventures with criminal investigation, and the planned property transfer probably never materialized.

But the main problem is finding out where the treasure abroad is hidden. The Moscow Association of Businessmen has announced rewards for information about the whereabouts of the party's assets. Russia's chief prosecutor has started an investigation. Some big scandals are yet to make headlines.

Where it has been identified, party property inside the country is being transferred to local authorities. Local governments have already taken control of more than 4,000 party publishing and printing houses, 40 of them being among the world's biggest. Many of them will soon be used to form joint ventures with major foreign publishing conglomerates.

Boris Yeltsin and the Russian parliament have asked the Swiss government to freeze the party's money in Swiss banks. Standing on principle, the Swiss authorities have asked for more information. Perhaps they want proof of the party's criminal activity. The Swiss government hasn't yet asked its banks to freeze any funds, but Swiss bankers are keeping an eye out for large transfers.

Other foreign governments have received similar requests from the Yeltsin government.

The world now knows Communist rule in Russia was corrupt and its socialism utterly unworkable. But the world doesn't yet know how utterly corrupt and rotten it was. ■

Vladimir Kvint is Distinguished Lecturer at Fordham University and Babson College. Natalia Darialova is a writer whose book, *No Man's Land*, was a bestseller in the Soviet Union.

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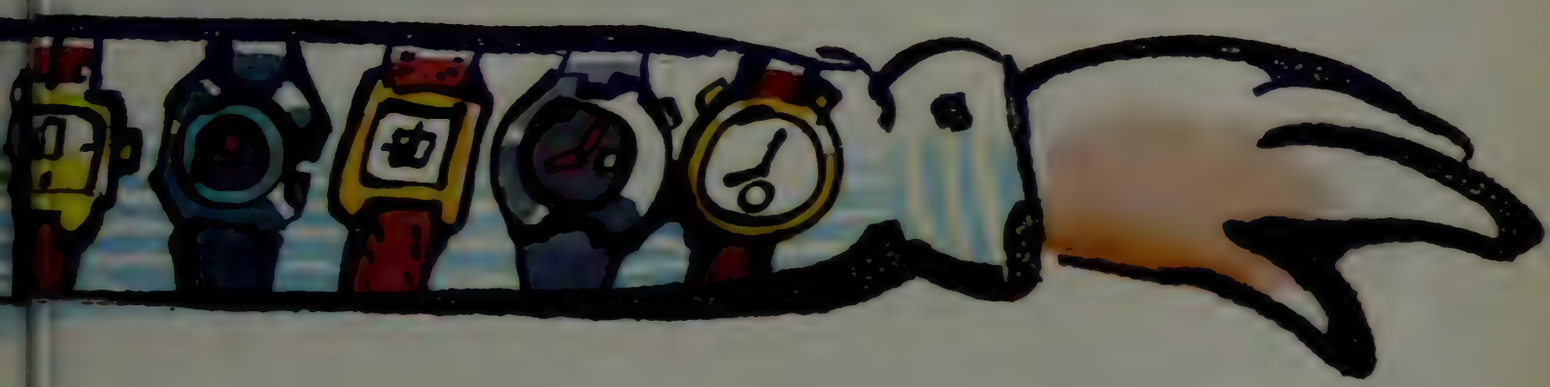

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If the American fashion industry lacks the prestige of the Europeans', the Americans have nobody to blame but themselves.

Avenue Montaigne it isn't

By Zina Sawaya

NEW YORK's Seventh Avenue. Except for the tall structures, there's a Third World look about the place. Dingy buildings, filthy streets, shabby men ramming clothes carts on crowded sidewalks, double-parked beat-up vans everywhere.

Yet this is big, big business. Women's apparel generated $58 billion in sales in the U.S. last year. The high-fashion stuff, costing $1,000 and up—way up—at retail, represented only 4% of this but sets the trend for the rest. Designs done here influence the rest of Seventh Avenue and other garment districts like those in Los Angeles, San Francisco and Miami.

Clearly this fashion capital of the U.S. is no elegant Avenue Montaigne such as Paris boasts, nor is it Milan's chic Via Montenapoleone. Yet this is where almost all the big names of American fashion are headquartered: Calvin Klein, Donna Karan, Oscar de la Renta, Bill Blass, to name a few.

The contrast between the elegant ambiance of the European fashion industry and the shoddy atmosphere of Seventh Avenue reflects the fact that American high fashion hasn't realized its potential. This shows in other ways, too. Paris is the fashion capital of the world, not only because of its couturiers, but also because the clothing business is taken seriously. A central organization, the Fédération Française de la Couture, acts as a powerful lobby. The courtyard of the Louvre itself, that near sacred symbol of French art and culture, is the scene in October and March of shows of French ready-to-wear. There, under white tents, media-attention-grabbers like Sylvester Stallone, Madonna and George Michael add glitter.

The shows in Paris attract non-French designers, too, among them Japan's Issey Miyake and Italy's Gianni Versace. Two thousand journalists from around the world descend on the French capital—about five times as many as cover the Manhattan showings.

The French shows will get even better. Starting in 1993 the French federation will get permanent, air-conditioned space inside the Louvre—permission was obtained from the French government.

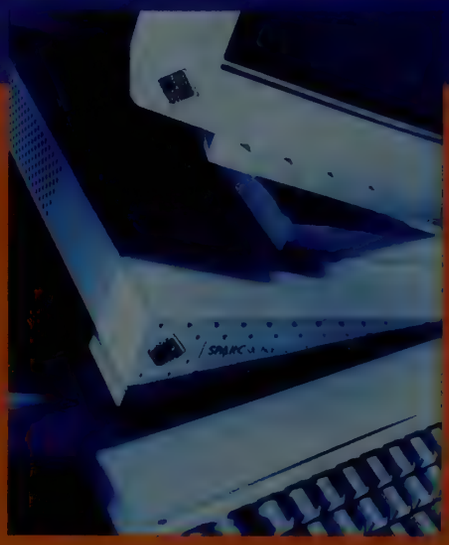
And the American industry? New York's ready-to-wear fashion shows are scheduled in November and April, but scattered all over town. Out-of-town buyers, journalists and models scamper frantically from show to show, which are mounted in the designer's showroom, in hotels or in rented spaces around New York.

"You just become consumed with the trek to the next show, so the clothes kind of take a second place," says Becky Homan, the fashion editor for the St. Louis *Post-Dispatch*.

Why haven't U.S. designers pulled together? "They are the OPEC of the apparel industry," says retail consultant Alan Millstein. "They'll never agree because they are intrinsically jealous and envious of one another." Designer Oscar de la Renta agrees: "Within our industry you are dealing

New York's Seventh Avenue and Paris' Avenue Montaigne
Will the American fashion industry pull together and put on a better face?

THIS WAS OPEN.



We're not implying that anything has changed regarding this workstation. It is still UNIX®-based. Its software specs remain accessible to all. And you can continue to run a multitude of UNIX applications on it.

We're simply saying this isn't enough to claim openness anymore.

Open should, in fact, extend beyond a family of workstations to multi-vendor environments, numerous operating systems and all of your applications. It should signify freedom of choice. And it should proclaim the power to protect your applications from impending changes in technology.

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digital

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Dan Lecca

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ABOVE: Michael Kors' fall show
LEFT: Fashion critic Suzy Menkes at the scene of disaster at Kors' showroom
Falling plaster forced the fashion industry to think about centralizing shows in a good location. But so far, only nine designers are showing together in November.

Reuters/Bettmann

Reuters/Bettmann

Celebrities Paloma Picasso and Catherine Deneuve
Adding glitz and glamour to the Paris fashion scene.

with a lot of egos."

These flagrant egos were momentarily shaken out of their self-absorption in April, when plaster came crashing down on the elegant head of Suzy Menkes, the *International Herald Tribune*'s fashion critic, at young designer Michael Kors' fall ready-to-wear show. Kors' showroom was a few floors below his offices, on a seedy street around the corner from a topless bar.

Embarrassed, the Council of Fashion Designers of America worked out a deal with the Hotel Macklowe, situated near the fashion district, to hold shows there in November on a trial basis. Buyers and journalists will get discounts on rooms, and fax machines will be provided. But so far only 9 designers, including Kors, have signed up—short of the goal of at least 12.

For years U.S. designers relied on their home market, the world's biggest, as a sufficient outlet for their products. Now the slump in retail coupled with department store bankruptcies are forcing them to broaden their horizons. "I think there's a major problem of a diminishing business in America. It will absolutely necessitate our facing up to the fact that we must be worldwide contenders in this fashion game," says Bill Blass.

But only Ralph Lauren has moved abroad in a decisive way. Lauren opened the first of a network of worldwide boutiques in London in 1981. The pseudo-aristocratic image that Lauren so skillfully cultivates for his product has caught imaginations in Europe. His stores in Paris and London sell more on a per-square-foot basis than does his store in New York. Lauren keeps prices competitive by executing his designs either on the spot in Europe or in the Far East. Other U.S. designers who sell in Europe, however minimally, are not competitive. Because of added costs such as shipping and import duties, their clothes retail at 20% to 30% higher than in the U.S.

Donna Karan, who made her reputation with stretch bodysuits, currently sells in some stores in London, such as Harvey Nichols. But to improve her price competitiveness, Karan is looking for a European garment firm to make her stuff. Bill Blass hopes to contract with a European manufacturer next year and open boutiques in Germany. Kors recently closed a deal with manufacturers in Italy. Better late than never.

Oscar de la Renta this March was the first U.S. designer to show at the Paris ready-to-wear shows. The Dominican-born designer said he was fed up with the haphazard way the shows were presented in New York. Says he: "If our industry would get organized, then all the big buyers, all the German, Swiss, Italian and Japanese buyers, will come to New York to buy. Then I wouldn't have to go through these pains to go to Europe."

Even in fashion, American business people are late in thinking globally.

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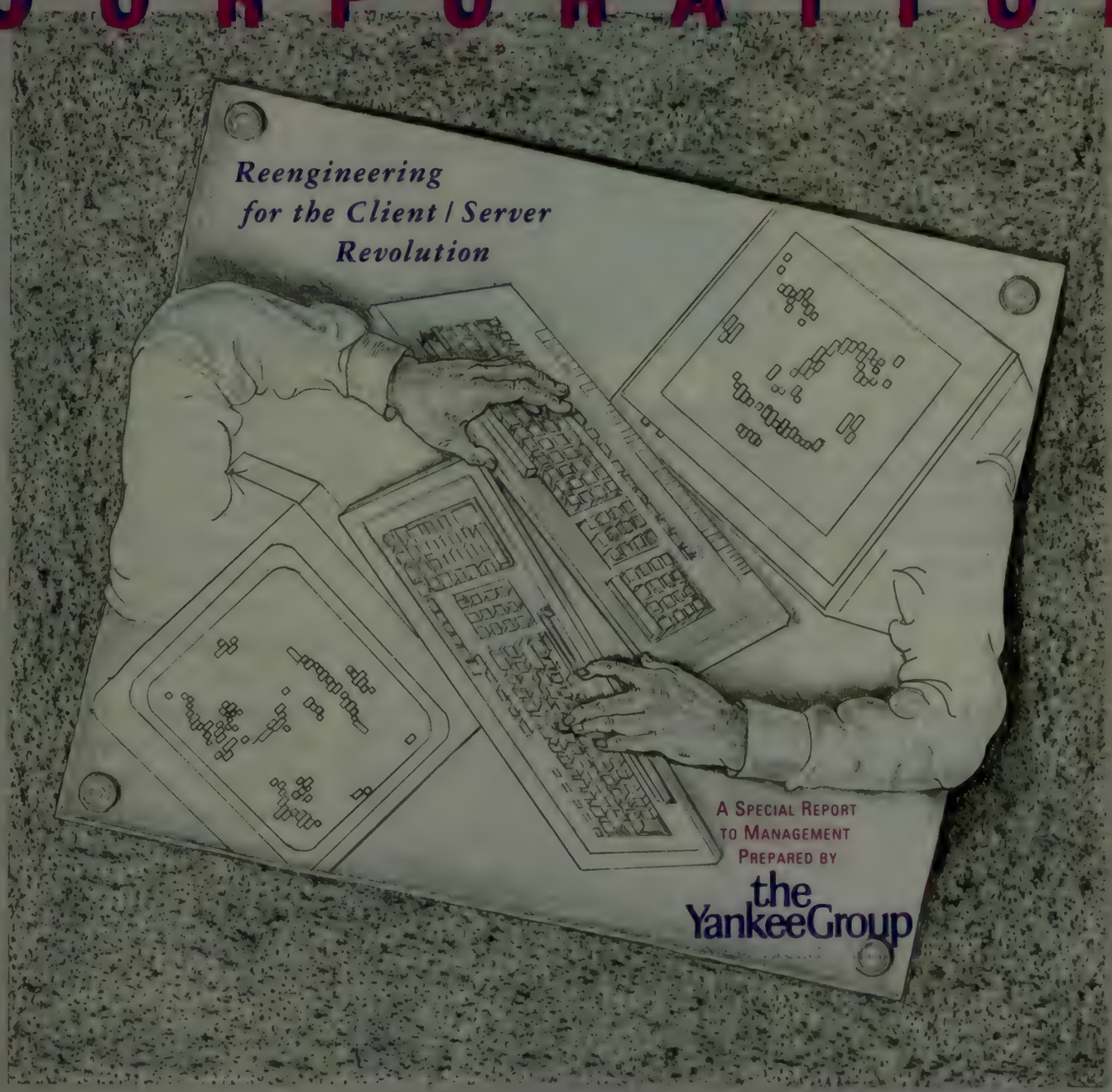
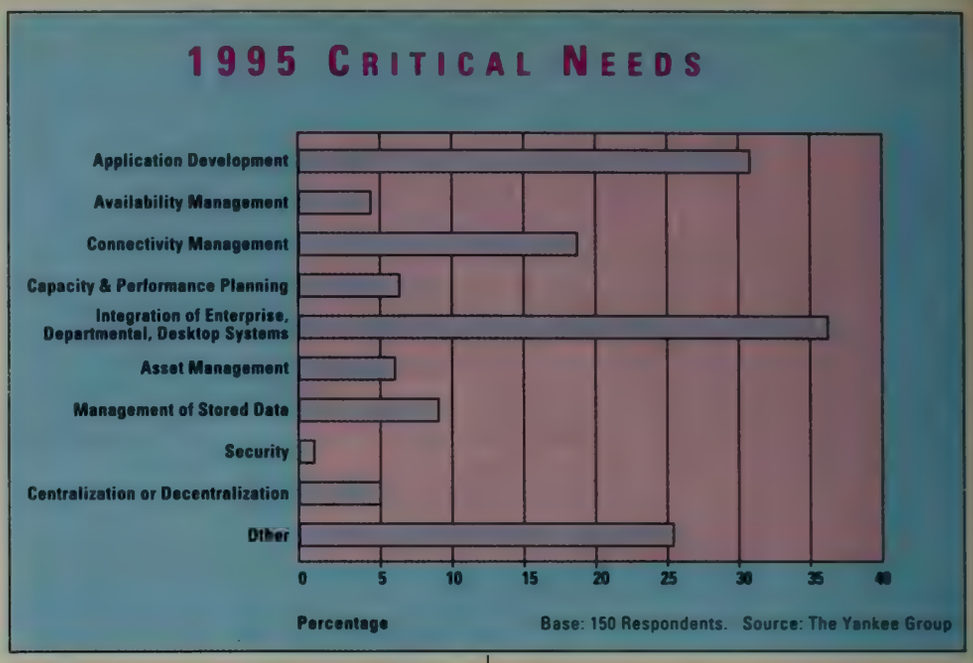
THE OPEN CORPORATION



Most companies do a mediocre job of managing their data. They are overwhelmed by its volume, but starved for the *value* of the information. The information a division needs is held hostage in isolated fiefdoms. The real key is to be able to share information in a way that makes it easier for related work groups, divisions and lines of business to put the data to work in its most usable form. Further, companies need to be able to selectively share information with customers and vendors so that it costs them less to do business. This is the challenge of creating **"THE OPEN CORPORATION."**

The problem isn't that vendors didn't provide the open solutions users needed. It's that companies built their data processing and communications infrastructure one brick at a time. And they typically bought different bricks. It's not that the old systems didn't work. It's just that they have life cycles.

Users now want all their systems, all their software, all their communications technology to work together. Integration has surpassed applications development as the most critical area for companies as they look ahead to 1995.



If You Can't Fix It, Get Rid of It!

Many companies are seemingly caught in the endless loop of switching computers, reinventing matrix organizations and spending extraordinary amounts of money trying to "fix" their basic business systems. They have built themselves into black holes by spending 89%* of their dollars tweaking what should have been thrown out five years ago. The real key is not to tinker with an outdated and technically bereft infrastructure, but to get rid of it!

The enormous investment in existing systems may seem to discourage such a move. But companies need to realize the older systems are not unlike those electro-mechanical calculators of 30 years ago: No one would think of repairing one today because the new options work so much better. The cost of computing compared with 1960 is 1/200th of 1% per MIPS (Millions of Instructions Per Second). And the cost of communications today is dropping faster than computing.

* Source: The Yankee Group, 1991

TAKESI MARUYAMA
Board Director and General Manager Open Systems Group
FUJITSU, LTD.

YANKEE GROUP: Do you see open systems as a global phenomenon?

TM: Yes, although the move toward the adoption of open standards is progressing at different rates within different markets. Take, for example, government versus private sector users. Governments have long been at the forefront of the demand for open system standards and, as such, have been quicker to adopt them.

Geographically speaking, I believe that the continuing integration of the European economies will drive even more rapid growth in demand for open systems in the private sector as companies try to get disparate systems to communicate with each other. In Eastern Europe, a lack of economic resources will delay all systems purchases by institutions there, but I believe that as they do begin buying equipment, a far greater percentage will be based on open systems than we find in other markets.

As for Japan, due to the nature of the domestic market there, the open systems movement has not yet had the impact experienced in Europe and Northern America. However, this situation is changing rapidly with various government-led efforts and the existing popularity of UNIX®.

Changing Your Approach

The problem is that most of the existing computing and communications systems do not work together. Each division optimizes its own functional area (sales order entry, production,

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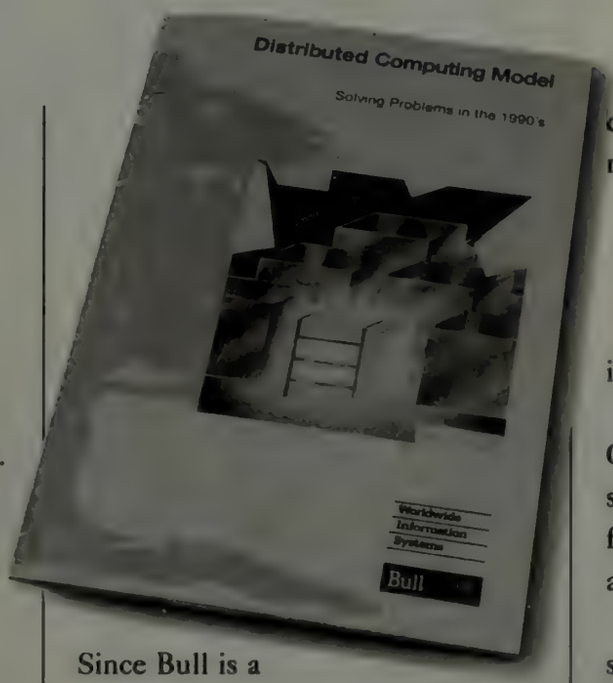

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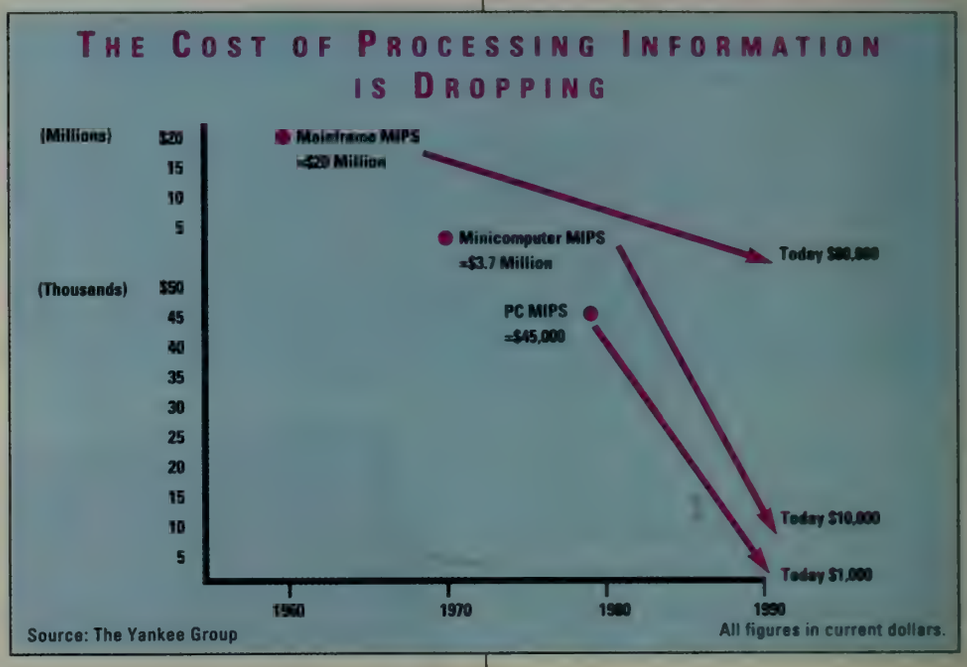
material requirements), but these groups do not communicate effectively among themselves. Companies now need to take an enterprise view and to treat the entire company as one organization — not one whose only commonality is the building and the parking lot. And an "open systems" approach in and of itself will not solve the problem. It is just one of the tools that a firm must use if it is to cut out the extra 30% of added expense and the 50% of added "time-to-market" inherent in unaligned technology.

An example of the problem: Your engineering group designs one type of widget, but your quality-control people can't access this data. The field sales force needs to know the build-and-ship schedule so it can dovetail with your customers' just-in-time inventory system. Your largest customer wants to give you his engineering data to save time in building to his specifications, but you have to translate and re-enter his work because of compatibility problems. Your credit department needs to know the financial status of all your customers to manage cash flow and credit, but because you can't tap into its system, you're forced to make decisions based on "gut feel" and incomplete information.

How do you break this pattern and start building toward an Open Corporation? Companies should begin by building a pyramid. The base of the pyramid should be your communications architecture. That's relatively easy to sell internally.

We are approaching a point where almost all white-collar workers or their support people are using personal computers or workstations. By 1995, 80% of these will be connected to Local Area Networks (LANs), which are stand-alone internal communications systems. The first challenge is to tie together these isolated islands with a communications strategy. While most firms are expanding their voice networks at a modest rate of 4% per employee per year, their data networks are growing at a rate of 35% a year. Building toward an Open Corporation without first deciding on a communications architecture is like building a house — or in this case a pyramid — without a foundation. Your people need to be connected to one another via a single, unified communications system that can handle all kinds of



TAKEO MIURA
Representative Director and Executive Vice President
HITACHI, LTD.

YANKEE GROUP: Do you see open systems as a global phenomenon?

TM: Hitachi's vision of open systems is a total team effort that extends beyond operating systems and protocols. It is a vision that focuses on the value of information and applications, transcending the traditional barriers of language, geography and vendor architecture.

At Hitachi we are completely committed to the design and development of open systems products that will not only conform to industry standards, but also be vendor neutral and international in scope. That is why we are a shareholder in X/Open, a sponsor of OSF, and support OSI protocols on all platforms.

Both in the United States and in Japan, teams of Hitachi engineers are working to turn that vision into reality.

Hitachi's open systems offerings will be designed to deliver total portability, interoperability and scalability irrespective of computer architecture.

The result of such pursuits will allow the sharing of information globally, as well as guarantee that your investments in applications will endure.

Eeeek!

In theory, information technology is supposed to set a company free.

But in practice, many organizations find that technology investments increase their costs without increasing their productivity.

Andersen Consulting can help keep your organization out of this dangerous trap.

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Which means your entire operation can feel the productive impact. And your people can have tools that help them perform more effectively.

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Because these days, a company's succes may depend on making a mouse roar.

ANDERSEN CONSULTING

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Where we go from here

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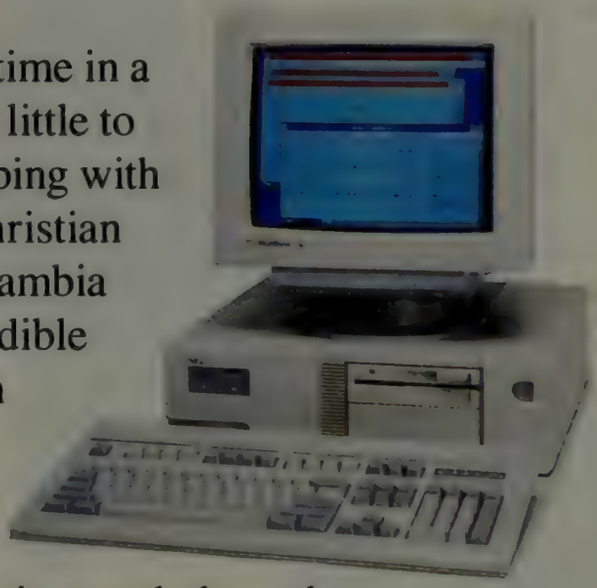
CaC Computers and Communications

8:30 AM

NEC helps the children of Unda-Unda get food for breakfast and food for thought.



Morning is not normally a happy time in a land plagued by unhealthy water and too little to eat. Often it means just one more day coping with malaria and hunger. But thanks to the Christian Children's Fund, children like these in Zambia awake to hope and a lot more. This incredible organization helps over 500,000 children in 28 countries receive healthcare, nutrition, housing and—to make them self-sufficient—education.

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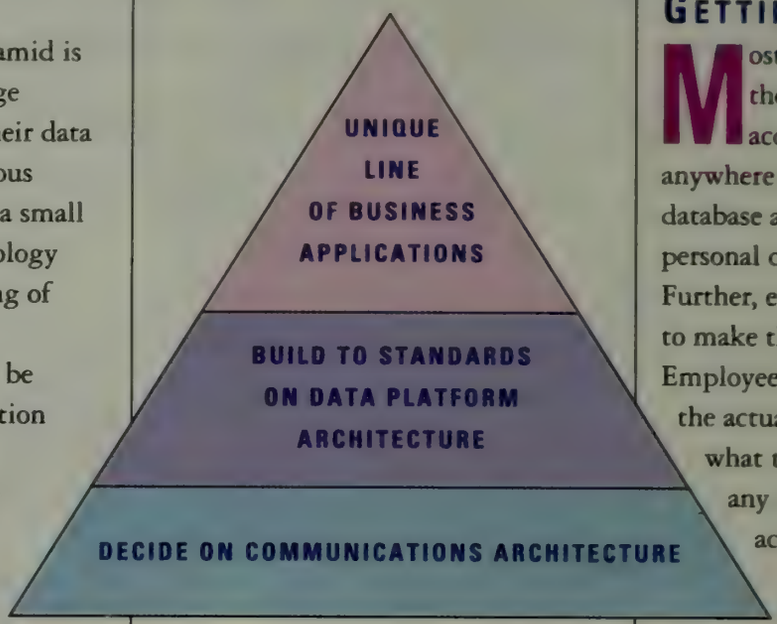
information so that, for example, your sales and manufacturing departments can share inventory and order information on-line.

The next layer of the pyramid is the data platform. Many large companies used to handle their data primarily through autonomous mainframe operations, with a small amount of interactive technology and, at best, a limited sharing of information.

By 1995, that figure will be reversed. The Open Corporation not only builds to a set of standards, it builds with the realization that business systems must exchange real-time, up-to-date information. The *real* key is the sharing of data among your people and their customers and suppliers. By building your Open Corporation on a platform of unified communications and interactive technology, you support the top of the pyramid: your company's unique information and application needs.



Getting Started

Most companies would like their people to be able to access corporate data anywhere in the world, on any database and from any workstation, personal computer or terminal. Further, every company would like to make things easy for users. Employees shouldn't have to know the actual location of the data, what the navigation path is or any special commands to access the data.

This vision of the way things *should* be is the easy part. The hard part is to have some form of common data administration. If the goal is to have all shared data appear as if in a single virtual database, then there are both

DOM LACAVA
Vice President, UNIX-Based Software & Systems
DIGITAL EQUIPMENT CORPORATION

YANKEE GROUP: We see the sophisticated company as having three viable options: Go to one vendor's total solution, become a sophisticated internal integrator or build toward the Open Corporation. What are the strengths and weaknesses of each?

DL: Any of those options can be viable, depending on that company's information processing goals... Information processing solutions from a single vendor offer the greatest prospects for the integration of applications and for information sharing. In reality, every company today, except for the very smallest, is a multivendor shop, if only because it is so easy to buy desktop machines. Recognizing this reality and the importance of information sharing and standards, end users will be looking to companies that can integrate their computing environments.

YG: What about becoming an internal systems integrator?

DL: Most companies are doing that today whether they like it or not. They are able to implement new technologies quickly, and pick the best of breed. However, a company has to be quite sophisticated, with a large, competent and diverse staff, to be successful.

YG: What about option three, the Open Corporation?

DL: Most importantly you build on no single vendor's solution, but on standards. The Open Corporation will give customers the ability to share data internally, at a lower cost and with more functionality. You will need fewer vendors, but you will demand more from them: global support and interoperability.

Your Window of Opportunity

Open Systems are going to bring us all closer together, and Hitachi is helping.

You already know us as a leader in basic LSI technologies. But interconnection isn't just a question of our worldwide R&D. Or the international forums we've joined and the millions of dollars that we're investing in Open Systems products.

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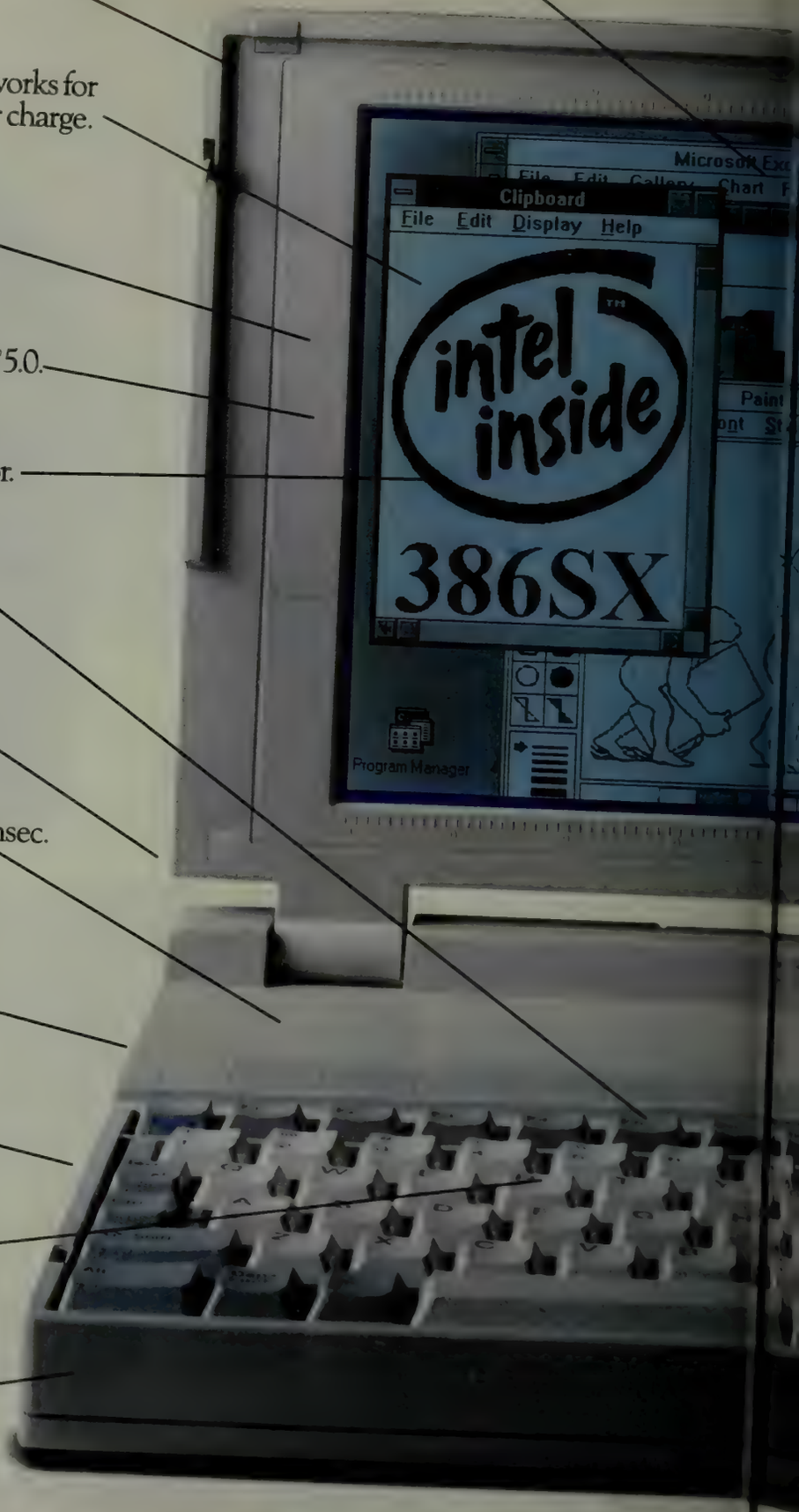

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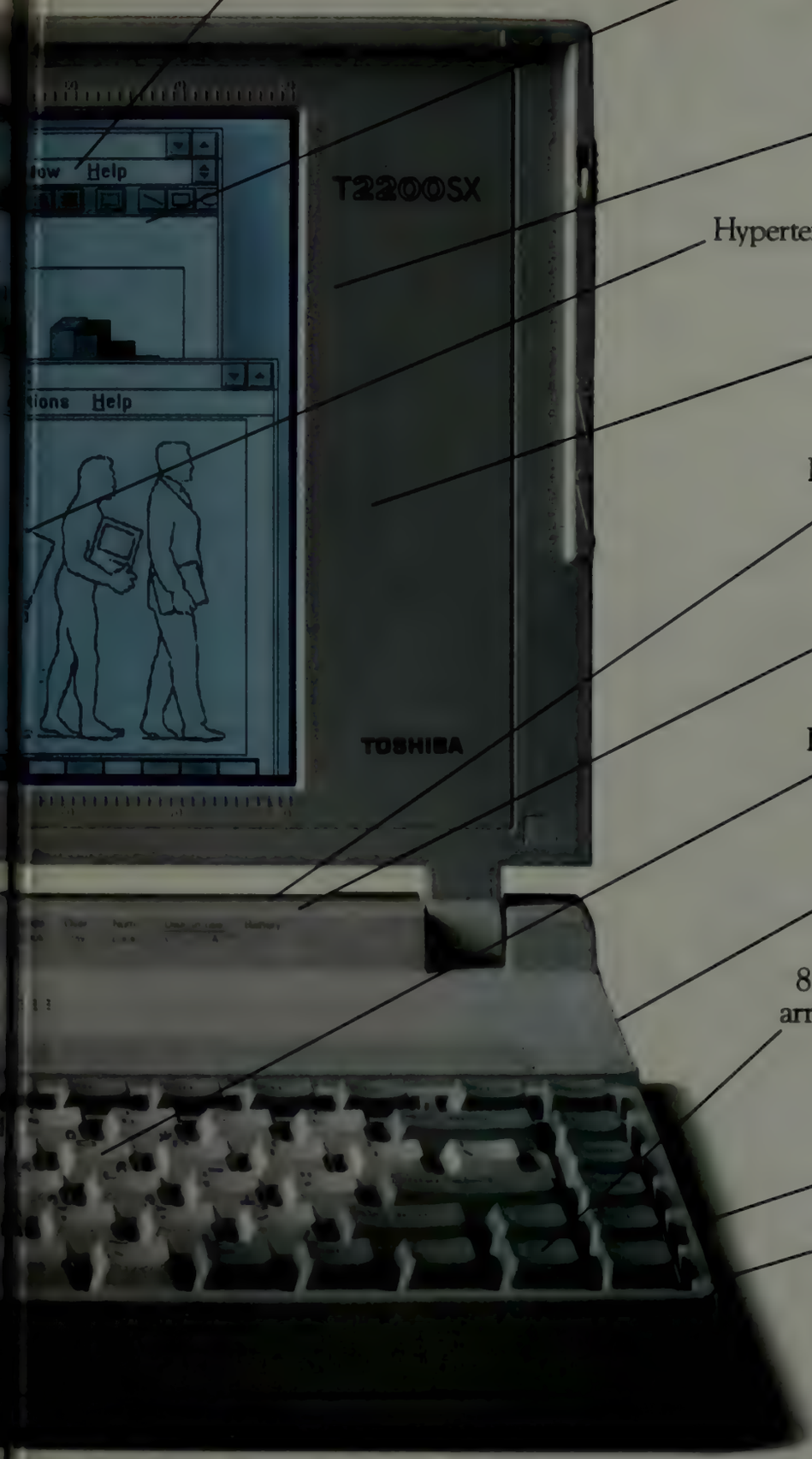

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infrastructure and turf questions that someone has to wrestle with first. The primary issue is not technology, but management.

An information systems staff should follow these essential steps:

- ▲ Build in a communications and data management view that supports your lines of business
- ▲ Provide for a commonality between systems
- ▲ Negotiate a master contract with vendors

In an Open Corporation, organizational changes are made to meet technological solutions halfway. However, such a vision brings intra-organizational problems to the surface. For example, two or more groups (even within the same profit center) may disagree on who "owns" the data. Is it the process control people or the MIS (management information systems) people?

Although there is a cost to becoming an Open Corporation, there is probably a greater cost to not becoming one. The smartest companies are demanding fewer technology vendors — but they want more from them. Increasingly the criterion for vendor selection is going to be: "Are they part of the Open Corporation solution — or part of the problem?"

Users will find themselves with the following situation: They want to keep their data processing costs under control; in fact, they want them to grow no faster than the entire corporate budget. This will mean simplifying the environment, consolidating data centers, building a backbone network, tying Local Area Networks into Wide Area Networks and embracing client/server communications. In effect, they will have to downsize.

What users really want to do is increase unique applications and decrease overhead such as operations and support. The vision of a more flexible — and less costly — environment means that users must do more with less. They must simultaneously drive costs down and functionality up. This is a tricky piece of business at any time, but especially in today's economic environment. The smartest users are doing all of this while simultaneously reengineering their basic business functions.

Facing Reality

Users don't really have a choice here. Business as usual is no longer an option. In order to compete, companies must embrace the concept of the Open Corporation, building the network, defining the platforms, moving to a client/server architecture and reengineering applications in descending order of magnitude. This means (1) building on (as much as possible) an open environment for all new applications and (2) putting older applications through the rigor of reengineering on lower-cost, more flexible platforms as quickly as possible. Companies will need the internal discipline to understand that the world has changed forever.

At the applications level, this concept is put into action by using graphical interfaces to give end users

TOM WEST
Senior Vice President
Advanced Systems Development
DATA GENERAL CORPORATION

YANKEE GROUP: What is the implication of the decision to become an Open Corporation to the corporation's legion of PC and workstation users?

TW: To begin with, the corporation no longer has to bet on which technology they will need on the desktop. This has become a war of the operating systems — back the wrong entry and you have set your company back five years and potentially wasted tens of millions of dollars. The advantage of the Open Corporation is, it won't really matter what desktop device it chooses, specifically because those devices will be served by a very powerful, very cheap computer server.

We talk about an evolution, not a revolution. But there has been a revolution; when we at Data General deliver 117 MIPS under $100,000 — that is a revolution.

YG: How is this evolution going to take form?

TW: The cutting edge companies will be moving at lightning speed to build applications on a client/server model, build toward the Open Corporation concept to take advantage of the low risk, high output solutions and begin to migrate their older applications. The role of the mainframe is not dead; it is just less important. It becomes one of several devices connected to the network; it is a peer, a repository.

Finally, the user is going to want to sit on the sideline of these "holy wars" of a proprietary nature. There will be a great advantage in not having a "religious" affiliation.

the "feel" that they are accustomed to while changing underlying platforms. The application seems the same, but the company has used the Open Corporation concept to reengineer for greater efficiency.

Beyond the obvious early steps — changing infrastructure and platform, followed by applications — the smartest companies will get their lines of business to buy into the process. They will also reward vendors that help move the process along.

The Power of the Users

Without question, users are influencing what vendors are doing. Power has moved into the hands of the users, and migration to the Open Corporation is growing from a trickle to a flood.

A company that wishes to become an Open Corporation must first realize the immense amount of power that it has through its purchasing dollar. Second, it must organize for open solutions, and third, aggregate with other users to present a substantial and clear market for the vendors. The irony is that the revolution on the desktop, combined with the move toward distributed computing, means that companies have to be more centralized in their demands.

By reasserting control over enterprise computing, users can drive their company to get the applications and systems portability they need. Why shouldn't any word processing package work with any other? By qualifying vendors first (do they offer a written commitment, a timetable and an implementation schedule?), users send a message that they will back their rhetoric with their dollars.

By 1992, users ought to insist that all new applications be created on an open platform and be portable

KUNIKA MIZUSHIMA
Senior Vice President, Group Executive Information Processing & Control Systems Group
TOSHIBA CORPORATION

YANKEE GROUP: Do you see open systems as a global phenomenon?

KM: In Japan, despite the largest share of market held by proprietary personal computers and mainframers thriving mightily, many of our customers ask for systems built with "open system components." I expect these will soon become more definite requirements. Open systems, downsizing and client/server systems are not local competitive tactics. It is the only feasible way to build information systems for users getting sophisticated and demanding better algorithms, user interfaces, inter-system communications and flexibility for future expansion.

YG: In an open systems world, how will vendors distinguish themselves?

KM: If open systems must be built on a single defined set of standards, it is certainly difficult to distinguish ourselves. In reality, however, there will be alternative standards available to make up a portion of a system. Vendors can choose and combine these standards to construct a system. Moreover, open system standards which are not flexible enough to accommodate originality will not survive. Vendors can realize superior original products coexisting with open systems.

DAVID TORY
President
OPEN SOFTWARE FOUNDATION

YANKEE GROUP: If a company wants to be an Open Corporation, what should it do first?

DT: Bring in those vendors whose products form the heart of the data processing infrastructure in mainframes and in distributed computing and ask them a series of very pointed questions:

- ▲ What are your commitments to open systems? Not just statements of direction, but firm commitments.
- ▲ Show us your timetable for this commitment that will give us applications portability and systems interoperability across your own platforms and then across to systems of like-minded vendors' platforms.
- ▲ How does the technology that you are providing today meet those requirements?

YG: Once a company has determined that certain vendors are both qualified and committed, what's next?

DT: They must back their direction with action. They must develop a procurement strategy by 1992 on a phased-in basis. That strategy will dictate what specifically they will buy.... They also must have the support of other user organizations to present a common front to the vendor community. The vendor community will see the seriousness of their commitment and the size of the market to hasten products onto the market.

to any system, whether mainframe, mini or micro. By 1993, they should be retrofitting their major applications to open systems. The real goal is to have the end users do their own software development, an accomplishment that will only be implemented when a corporation has open systems.

Anticipating the Hurdles

The major impediment to open systems will not be recalcitrant vendors, even though they may favor their proprietary solutions. The real hurdle will be a company's own lines of business and staffs that may be reluctant to work together. Proprietary solutions still have many adherents within a corporation who may rebel if their solutions are not supported.

The real benefits of the Open Corporation are the key to an internal sell.

The major benefit is speed-to-market. By streamlining the organization, new applications can be built 15% to 20% faster. This translates into being first to market with new products, getting higher margins for those products and coming out with a stream of interactive and continuous improvements before the products and services become commodities.

Another benefit of becoming an Open Corporation is that your trading partners are going to be doing the same thing. For example, instead of getting engineering drawings in the mail and being asked to bid on them, companies can exchange electronic data that is pre-formatted so that drawings can automatically be estimated by your computer model.

A typical manufacturing company will spend 1% to 1.5% of sales revenue on computing and perhaps another 1% on communications and networks. That means a typical company with sales of $3 billion will spend some $30 million per year. A commitment to open systems means that this cost should drop about 10% per year, based on research among 100 companies regularly surveyed by the Yankee Group (the "Yankee Group 100"). Part of these savings will come, not from purchasing less expensive hardware or software, but from staff reductions, since companies will no longer need experts for each hardware and software product.

Making a Commitment to Change

We are in the midst of a major business and technical revolution. Mainstream users are thinking across boundaries. They want to act as if they and their customers are part of a common data system and even a common data management system. It is here that proprietary solutions form too many individual roadblocks. Conclusion: Users and vendors must move fast to build new applications on the Open Corporation concept.

The information technology group, as was pointed out earlier, has an enormous selling job to do

JAMES FISCHER
Managing Partner
ANDERSEN CONSULTING

YANKEE GROUP: Which industries will lead the migration toward the Open Corporation?

JF: Aerospace and high-tech manufacturing lead the way. What is important is that across corporations, companies are moving toward the Open Corporation for three reasons: flexibility, cost savings and speed-to-market. This combination of "buyer value" will have impact both on hardware and software decisions.

YG: When you discuss the quantitative advantages of the Open Corporation with CEOs, are you able to estimate what kind of internal rate of return they should expect?

JF: If a CEO can answer where he is driving his company and the changes that he is attempting to make, then this number is more easily derived. In an open systems environment, you can better protect the investment you have already made. For those not going to change, there will be little cost savings. If, however, a company is changing, then getting applications development speed down some 50% is doable. And more important, the benefits come during the process — not all at the end.

YG: For example?

JF: A major airline used to audit the tickets only 10% of the time — and then by manual means. With an open systems approach on a client/server platform, they can audit 100%, and they will save some $30 million a year, all on a $28 million investment. This is the kind of result that can be gained by building new applications on the Open Corporation concept.

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internally. Top executives and business line general managers are skeptical and need proof of return on investment. Moreover, the information technology staff has a limited amount of time to capture "share of mind:" 20% of the Yankee Group 100 companies surveyed say they will outsource some part of their information technology over the next five years, tending to simplify their environments. By showing immediate early benefits, if only on a portion of the problem, the stage is set for full corporate rollout.

What about the vendors? No vendor today is against the concept of the Open Corporation, but vendors also long for the old days when they could offer proprietary solutions and "lock in" their customers. However, it's interesting that the Yankee Group's research shows that the largest companies still prefer to stay with their

AXEL LEBLOIS
President and CEO
BULL HN INFORMATION SYSTEMS, INC.

YANKEE GROUP: Do you see open systems as just making what's there work better together, or do you see real long-term benefits and cost savings?

AL: Open systems have both short and long-term benefits...The long-term benefits of open systems will clearly be cost-saving in terms of number of applications needed within an organization, system development and maintenance and eliminating redundant systems. The other long-term savings will come with the new way people will work together — within departments, organizations, with customers and vendors — to shorten sales, development and manufacturing cycles.

YG: How do you think that client/server and open systems are going to change the way a corporation does business?

AL: Client/server and open systems will impact the very way people work: within their departments, organizations and with their customers and vendors. By tying disparate systems together and being able to access and utilize information, the traditional work flow will change drastically and become much more efficient and timely. Open systems will improve time to market, flatten the traditionally hierarchical business process, improve customer service and empower people with information.

JIM BERRETT
Chief Operating Executive
NEC TECHNOLOGIES

YANKEE GROUP: What impediments have to be cleared for open systems to dominate the computing environment?

JB: Open systems will depend on the client/server model moving from the conceptual to the real. We still haven't seen the "killer" application for client/server, although Lotus *Notes* comes close.

But, in a larger sense, nothing has opened the environment as much as the personal computer. It is built upon MS-DOS, which is available to every manufacturer, and on Intel chips which are equally available.

YG: How will vendors make money in an open environment, and is that important to the industry?

JB: It is a question that we ask all the time. Every vendor has to keep his proprietary users happy. He has to build on industry standard open solutions, and he may also need ways to offer heterogeneous connectivity. The standards are a way that vendors are able to work together and reduce the amount of R&D that they have to spend, which improves profitability. But it does seem clear that the gross margins from open systems will be half that of proprietary systems.

This implies that the smartest users are going to go through three stages — connectivity, network computing and, finally, client/server computing. Every day companies are stripping applications off their mainframes and replacing them with open solutions built on industry standard client/server. Those older mainframe applications will be part of the client/server equation — but only part of a larger solutions set.

traditional vendors, except that they now want open solutions from them.

In Conclusion

The bottom line is that proprietary solutions will continue for now, but ultimately wither. Third-party software companies need a predictable — and growing — market, and they will fall into line behind an open systems solution. The economics of desktop computing, workstation computing and client/server computing are just too overwhelming to ignore.

The concept of the Open Corporation is gaining momentum with the best-run companies in America.

Much of the appeal for becoming an Open Corporation is cost-efficiency, and, within the next few years, openness may be worth a premium because it will be so difficult to support proprietary systems.

However, not every business decision can be reduced to a set of return-on-investment equations. The issue here is not really finance, and it is not even technology. It is the discovery of a new way to manage your company for maximum profitability.

HOWARD ANDERSON

"The Open Corporation" was created and written by Howard Anderson, founder and managing director of the Yankee Group, a Boston-based worldwide technology consulting and market analysis firm, and Corey Green, special projects director for the Yankee Group.

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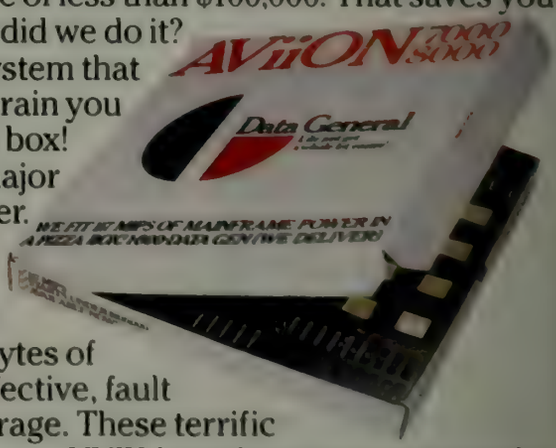

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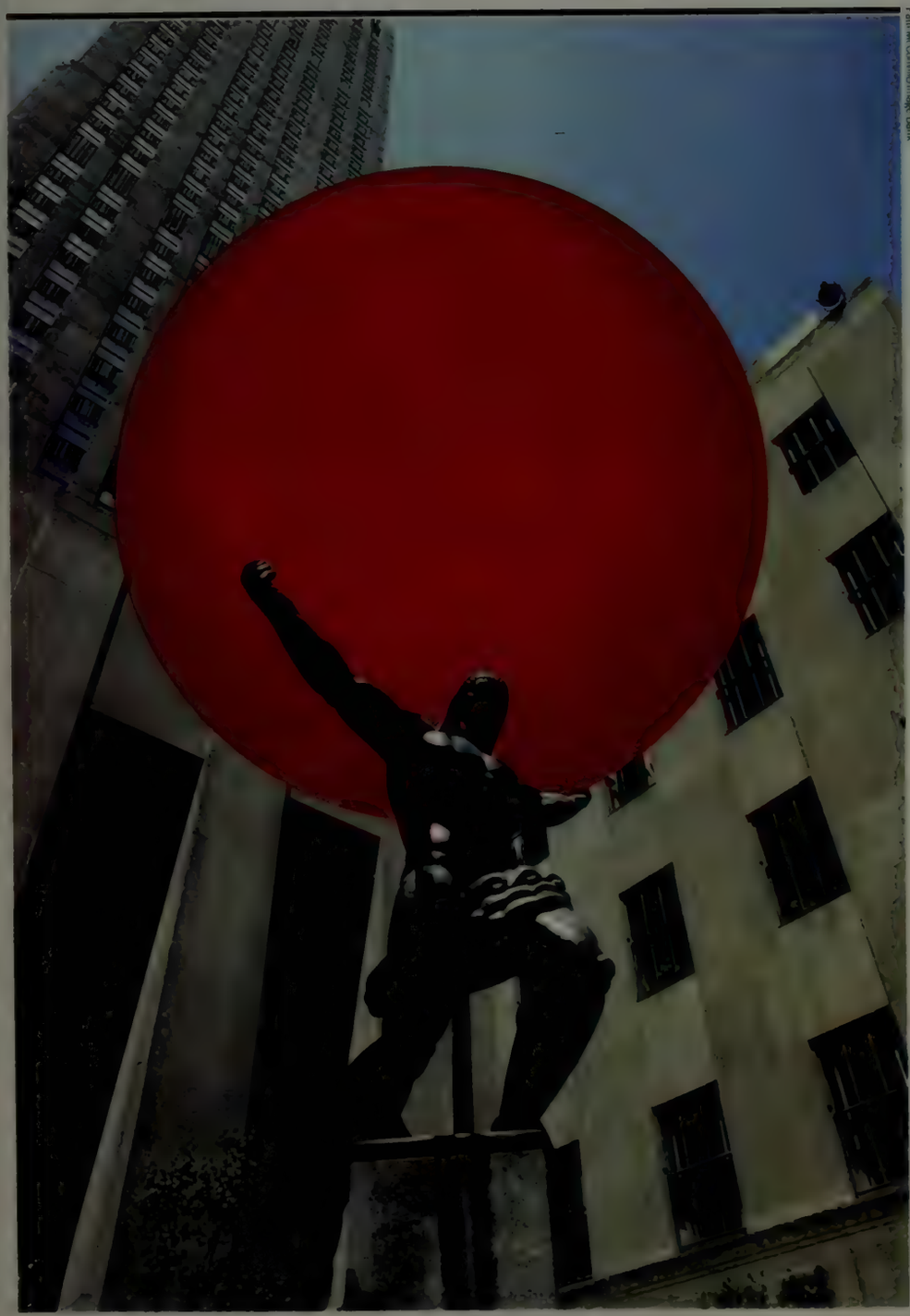
Unlike a lot of the old rich, the Rockefellers haven't lost their touch. The timing of their sale of Rockefeller Center to the Japanese couldn't have been smarter.

Getting out at the top

By Jonathan Burton



Patti McConville/Image Bank

MITSUBISHI ESTATE CO. is one of central Tokyo's oldest and richest landlords and, on a smaller scale, one of Manhattan's most prestigious: It owns 80% of Rockefeller Group, Inc., whose primary assets are the 12 original Rockefeller Center buildings, the Time & Life building nearby on Avenue of the Americas and about half of the McGraw-Hill building; it also owns a majority interest in the property management firm of Cushman & Wakefield and a New Jersey office park, and has five real estate, telecommunications and entertainment subsidiaries.

Mitsubishi has paid a total of nearly $1.4 billion since October 1989 to buy the controlling stake in Rockefeller Group, Inc. from the Rockefeller family.

From the viewpoint of the nearly 90 beneficiaries of various Rockefeller family trusts, the timing was brilliant. "John D. would have been proud of the boys," said one real estate broker. (Among the beneficiaries were Laurance S., David and West Virginia Senator John D. Rockefeller IV.) From Mitsubishi's point of view, the timing could scarcely have been worse. Were the Japanese company to put its real estate stake on the market today, it might be lucky to get $900 million. Even for a company as rich as Mitsubishi, that's a nasty paper loss.

The Rockefellers can thank Goldman, Sachs & Co. and Shearson Lehman Brothers. In 1985 those Wall Street firms helped develop a plan whereby the Rockefellers could cash out of Rockefeller Center without giving up their entire interest. Here's how it worked:

In 1985 the Rockefeller Group mortgaged its Rockefeller Center buildings for $1.3 billion. That jumbo mortgage was sold through Rockefeller Center Properties, Inc., a publicly traded real estate investment trust that was created to facilitate the transaction. RCPI's major asset is the mortgage; its principal source of income, interest on the mortgage. Rockefeller Group, Inc. still owns and manages the property.

Most of the money borrowed against Rockefeller Center was disbursed to dozens of family trusts—providing eagerly sought cash for members of the family.

Perhaps sooner than most, the Rockefeller advisers saw a crash coming in New York City real estate. In Rockefeller Group, Inc.'s 1988 annual review, written in early 1989, Richard Voell, RGI's president and chief executive, wrote that despite New York City's economic vitality, "softness was evident in new commercial building and the financial industry." He also cited "the severity of the problems facing New York City now and in the future."

Voell, 57, got to work on the problem. He and RGI's advisers contacted at least 20 potential buyers around the world, among them Japan's Mitsui Real Estate Development Co. and Sumitomo Realty & Development, and Canada's Olympia & York. Mitsubishi Estate Co. grabbed at the bait. It quickly agreed to pay a price that preempted any rivals. According to Rockefeller Group management, Mitsubishi requested that the existing management team be kept in place. Mitsubishi also accepted just 3 of the 11 seats on RGI's board.

Voell had driven a hard bargain, aware that the Japanese were hungry for prestige properties. "David [Rockefeller] didn't really want to sell the buildings," says a family adviser, "but he couldn't believe the price Mitsubishi was willing to pay." The Rockefellers had purchased the land underlying Rockefeller Center from cash-strapped Columbia University in 1985 for $400 million.

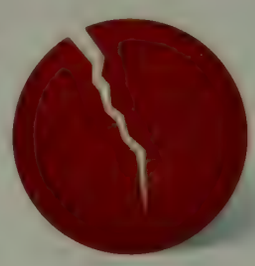
The Mitsubishi deal, recalls one expert, was a situation where the Japanese essentially said, "Don't tell me what it's worth; tell me what I have to pay to get it." Mitsubishi Estate's bid was significantly higher than the next-best contender's. In the clubby, competitive world of Japanese business, Mitsubishi Estate gained prestige with the deal. "It's a once-in-a-lifetime thing," reasoned John Fong Tsui, head of the New York-based Asian Real Estate Association. "They're almost acquiring a trademark. With the Japanese, trademark and name are probably as important as drawing a profit."

The deal was done in three stages. Mitsubishi Estate paid $846 million in cash for 51% of Rockefeller Group, Inc. in October 1989. It also granted the Rockefellers options to sell an additional 29% of RGI for $527 million. As New York property prices continued to slide, the Rockefellers exercised their put in the summers of 1990 and 1991. For $1.37 billion, Mitsubishi Estate now owns 80% of Rockefeller Group.

When Mitsubishi bought into RGI, over 95% of the 12 Rockefeller Center buildings' 6.2 million square feet was rented. But leases covering nearly half of this space will expire in 1994. That may have been considered a big plus by Mitsubishi when it agreed to the Rockefellers' terms, but today almost no one thinks tenants will be lining up to renew at significantly higher rents. Says one New York real estate veteran of Rockefeller Center's leasing habits: "What they're used to is sitting back with their fingertips together, contemplating which tenants they should take. Those days are over."

For all their art deco splendor, these are old buildings dating from the 1930s, and they need regular, costly maintenance. Rockefeller Group has spent more than $200 million since 1985 to upgrade them, but more improvements are needed.

The mortgage on the Rockefeller Center buildings falls due in 2007, but seven years prior to that, the owners of the real estate investment trust holding the mortgage may, at their option, convert the loan into a 71.5% equity interest in the Center. In other words, if the New York property market rebounds by the end of the decade, Rockefeller Group/Mitsubishi may be forced to reduce their holdings in the buildings to 28.5%. But if property values remain depressed, the mortgage holders can demand cash when the loan matures. Rockefeller Group owns a vacant lot at Seventh Avenue, between 49th Street and 50th Street. Mitsubishi and RGI management had planned to break ground this fall on a $600 million, 55-story commercial/office tower called Rockefeller Plaza West, but New York's property crash has put the project on hold. The lot, with an estimated value of nearly $200 million in 1989, is today worth perhaps half of that.



Kiyoaki Hara, a Tokyo-based Mitsubishi Estate managing director, was instrumental in arranging his company's investment in Rockefeller Group. "Maybe this was a good lesson for all of us for our future efforts," says Hara through an interpreter. "We are the foreigners, and we are here to study." The lesson seems too obvious to be worth repeating: Don't buy at the top. But maybe the Japanese were so mesmerized by the fantastic values in their own real estate market that they lost sight of this ancient truth.

Nor does the deal have a totally happy ending for the Rockefellers. Voell held back some $200 million of the proceeds from the funds generated by mortgaging the Rockefeller Center buildings in 1985 and reinvested it for the family. In December 1986 Rock Capital Partners put up a quarter of the $290 million leveraged buyout of Pandick Press, the financial printer. But Pandick never recovered from the Wall Street collapse, and in 1989 Rockefeller Group wrote off its investment.

Less disastrous was Rockefeller Group Capital Corp.'s October 1988 investment in the leveraged buyout of Best Products. In January Best filed for Chapter 11 bankruptcy, leaving Rockefeller Group with $97 million in unsecured loans. "We're working on it full time," says Voell. "We'll stay with it until we realize everything we can on it."

In August 1987 RGI's Rock Capital Partners subsidiary financed the $176 million leveraged buyout of Drake Bakeries from Ralston Purina Co. This, too, ended with a loss for Rockefeller Group.

Rockefeller Group is now scaling back its two principal financing vehicles, Rock Capital Partners and Rockefeller Group Capital Corp. "We're not making any more investments like this," says Voell.

But these losses were relatively small change compared with what Voell extracted from the Japanese, who now must wait patiently for the next pickup in Manhattan real estate. If ever.

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Buckle up, America!

Grocer Robert Onstead has grown seriously rich by catering to Houston's affluent. Can an upscale merchant move successfully downscale?

Caviar yes, chardonnay no

By Toni Mack

MARGARET RITNER, 62, is sipping Hawaiian-grown Kona coffee at the gourmet coffee bar at a Randall's supermarket in Houston. "I come here just about every day," she says. "I can shop, do my banking, visit with my friends and have lunch. The bakery is excellent, and the produce always looks so nice. I spend $100 or more a week here."

Devoted customers like Ritner have made Randall's Food Markets Inc. the leader in Houston's $5 billion grocery market. It wasn't always thus: In 1986, according to *Progressive Grocer*, Kroger had 20% of the market to Randall's 14.6%; in 1991, the score is Randall's, 21%, Kroger, 19%. In these five years, Randall's sales have climbed from under $700 million to $1.1 billion.

Randall's success is rooted in what can best be described as an upmarket strategy. Many of its stores cater to the wealthy and near-wealthy. This explains in good part its high volume per store. Randall's 44 locations average $25 million a store, while FORBES estimates Kroger's 61 average just $16.6 million. Randall's generates $462 a square foot in annual sales, 25% above the Houston average.

This year, while other big U.S. chains net an average 1.5% of sales, Randall's will net 2% to 3%.

Randall's success has made Chairman Robert Onstead, 60, and his family seriously rich. Onstead started the company in partnership with R.C. Barclay and Norman Frewin in 1966 with $85,000 in capital, mostly borrowed. Randall's is still privately owned, with the Onsteads holding a 64% stake and the rest divided among an ESOP, certain executives and the families of Onstead's cofounders. PaineWebber analyst Gary Giblen figures privately held Randall's would be worth $560 million if it were public, making the Onsteads' worth at least $355 million.

The son of a mail carrier in Ennis, Tex., Robert Onstead entered the grocery business at one of his father-in-law's three Houston stores in 1955. In the early 1980s, he conceived the idea of expanding the small gourmet stores then becoming popular in the eastern U.S. to appeal to a broader clientele.

How does Randall's attract its affluent customers? Its stockers don't dump apples into a bin; they stack them neatly and cull the bad ones. Ask a worker where the olive oil is, and he won't just say, "aisle seven"—he'll take you there. Courting shoppers with young families, Onstead provides miniature grocery carts and free bakery cookies for kids.

To make customers feel safe, he has security officers in all his stores and makes sure the parking lots are brightly lit. At the busiest stores, he hires off-duty cops to direct traffic. One store

even offers free valet parking.

Onstead was early in providing one-stop shopping. Many Randall's have pharmacies, full-service florists, delis, film developing, video rentals and prepared food like barbecued chicken and pizza. Shoppers can bank, too, at recently installed First Interstate outlets.

Most stores stock lots of premium-priced items, including jars of exotic Chinese sauces that probably haven't sold for years. So why carry them? "It makes a statement," says Bob Onstead's son Randall, the company's president, whose given name is pure coincidence. "That's how you get your reputation for variety."

The Onsteads are constantly on the prowl for new ideas. Bob Onstead's latest innovation was influenced by the Wegman's chain of upstate New York. At the newest Randall's stores, workers ice cakes, trim meat, wrap pints of strawberries and juice oranges not in the usual back rooms, but in full view of shoppers—all to emphasize freshness. If customers interrupt the workers, so much the better. "You can go to any grocery store in Houston and not get service," says Randall Onstead, 35. "We want to hear from our customers."

For all his attention to the buck, Bob Onstead stubbornly refuses to stock beer or wine—items that generate over 5% of other grocers' sales. He saw his wife's family wracked by her father's alcoholism; being privately owned, Randall's can thus afford to put principle above profit.

However, there are more ordinary people than there are affluent ones. Randall's has already blanketed Houston's better-off west side, but Onstead now wants to add 7% to 12% yearly to his store base. That means expanding into the lower-income suburbs to the east. Says Onstead: "We must succeed with blue-collar workers."

So while the Randall's near-posh River Oaks sports brass trim, two new stores in Pasadena and Channelview have wood trim. Cans of tuna aren't lined up neatly on shelves, but are tossed into baskets, with cases stacked on the shelf above, conveying a discount image. These stores offer 24-ounce bags of Doritos tortilla chips at $3.59 each, 2-gallon jugs of Tide detergent for $16.27 and other bulk items of the kind found at warehouse clubs. Prices on the bulk items are in line with the discounters' prices. At Sam's Club in Houston, the Doritos are $3.59 and the Tide is $16.53.

Gone are sections like Gourmet Coffee and Gourmet Cookies & Crackers. The Onsteads understand that the very features that would appeal to a stockbroker's wife might turn off a truck driver's wife. "A truck driver doesn't even want to shop in a store that sells Carr's Table Wafers," says Randall Onstead.

The new Randall's stores are doing well, with sales running above the chain's monthly average of $2 million per store. But so far these supermarkets account for only an estimated 5.5% of Randall's volume. Whether the family will be as successful with blue collars as they have been with pink and white collars remains to be seen. At any rate, Bob Onstead intends to find out.

He says he will not sell out, though he gets four or five inquiries a year. "We don't need capital to expand, and I don't want to cash in my chips," he says. Quite the contrary. He wants more of them. ■

LEFT: Randall's Chairman Robert Onstead
RIGHT: Son Randall, the company's president, with bakery workers
Upmarket stores like these have pushed Randall's into the lead among Houston grocery chains.

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ELECTRONICS AMERICA

Why doesn't President Bush cut out the poverty-increasing "kinder and gentler" stuff, and finish the job on socialism?

Socialism's last stand

BY MICHAEL NOVAK

Michael Novak holds the George Frederick Jewett chair in religion and public policy at the American Enterprise Institute in Washington, D.C. His book *The Spirit of Democratic Capitalism* has been widely translated around the world.

THIS YEAR'S annual household economic reports from the Census Bureau show an upsurge of poverty and a slight decrease in inequality. That is what one might expect from a fixation on inequality—everyone gets poorer. The Democrats frightened President Bush by their attacks on "inequality"—and, tragically, Bush abandoned Reagan's emphasis on economic growth. Socialism may be dead in the (former) U.S.S.R.; socialism may be dying in Sweden; but its last stand in America is the belief that inequality of incomes is "unfair."

When some people choose graduate education and others drop out of high school, egalitarians disregard this choice and, in effect, say it is unfair that the fellow who struggled to gain a skill should be paid much more than the fellow who dropped out. And when some people get married, stay married and enjoy two incomes, whereas other people have children out of wedlock in households in which no one works, the egalitarians still say it is wrong that the stable, working family should be economically far ahead of the other.

This year there is no excuse for socialist distortions of Census Bureau data. Four of the most outstanding scholars at the Census Bureau—Gordon Green, Paul Ryscavage, Edward Welniak and John Coder—have released three powerful studies of the data. These studies are not official; they were first delivered at scholarly conferences.

The first paper points out that earnings distributions in five industrialized countries (Canada, Sweden, Australia, West Germany and the U.S.) are becoming more unequal, especially in Sweden, Canada and the U.S. Clearly, something more than U.S. tax policy (favorite false target of the left) is at work—and on an international scale.

The second paper shows that the sharp decline in stable family life among U.S. blacks since 1969 has brought black economic progress to a screeching halt. Look at these figures: In 1969, 57% of all black households were married couples; in 1989, this number fell to 36%. Correspondingly, black poverty, which had been reduced from more than 68% to 32% in the interval from 1940 to 1970, has since remained at about that level.

The third paper develops new techniques to isolate and quantify the seven major determinants of income, including age, work record and the two most important ones, family structure and education. Most of these determinants are beyond government control; several (like family structure) spring chiefly from personal choice. And personal marital choices changed drastically in the years between 1969 and 1989. In 1969 married couples made up 70% of all households; in 1989, only 56%. But the median income of married-couple households is slightly more than twice as high as that of other households. Nothing else so steeply affects income.

Indeed, if household type in 1989 had been the same as in 1969, median income in 1989 would have been $3,200 more, and the poverty level would now be at an unprecedented low—about 10%. In addition, the best mathematical measure of inequality—the Census Bureau's Gini index—would have risen only to 0.411 (instead of the present 0.429), not far above the 1969 level of 0.391.

In insights such as these, statisticians at the Census Bureau are now far more sophisticated than the journalists at most American news outlets. So why don't editors insist on better analysis from their reporters?

America's dwindling band of progressives wants contradictory things. On the one hand, progressives want greater equality in incomes. On the other hand, they want large welfare programs to support separation, abandonment of spouse and children, and out-of-wedlock births. The record shows that you can't have both these things. Looser family structure means greater income inequality.

Why is this? Working produces more income than not working. And having two full-time workers (in a married-couple household) brings much more income than having one or no workers (in a single-female-headed household). The fastest-growing, largest group of low-income households in the U.S. are those headed by single females, either elderly or aged 16 to 29 with children.

Note another contradiction. Progressives want greater income equality but also want many college-educated citizens. But college-educated workers tend to earn much higher incomes. More education simply means greater inequality between the well educated and the ill educated.

Why doesn't Bush return to the economic successes of Reagan? Why doesn't he stop the poverty-increasing "kinder and gentler" stuff, and finish the job on socialism? Cut capital gains and other taxes. Restore incentives. Attack the parts of the welfare state that destroy family life. Get this country moving again. ■

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The Energy To Change

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Chile has learned that privatized social security is more efficient than government-run social security. Is anyone in our Congress listening?

A better way to do it

By Rita Koselka

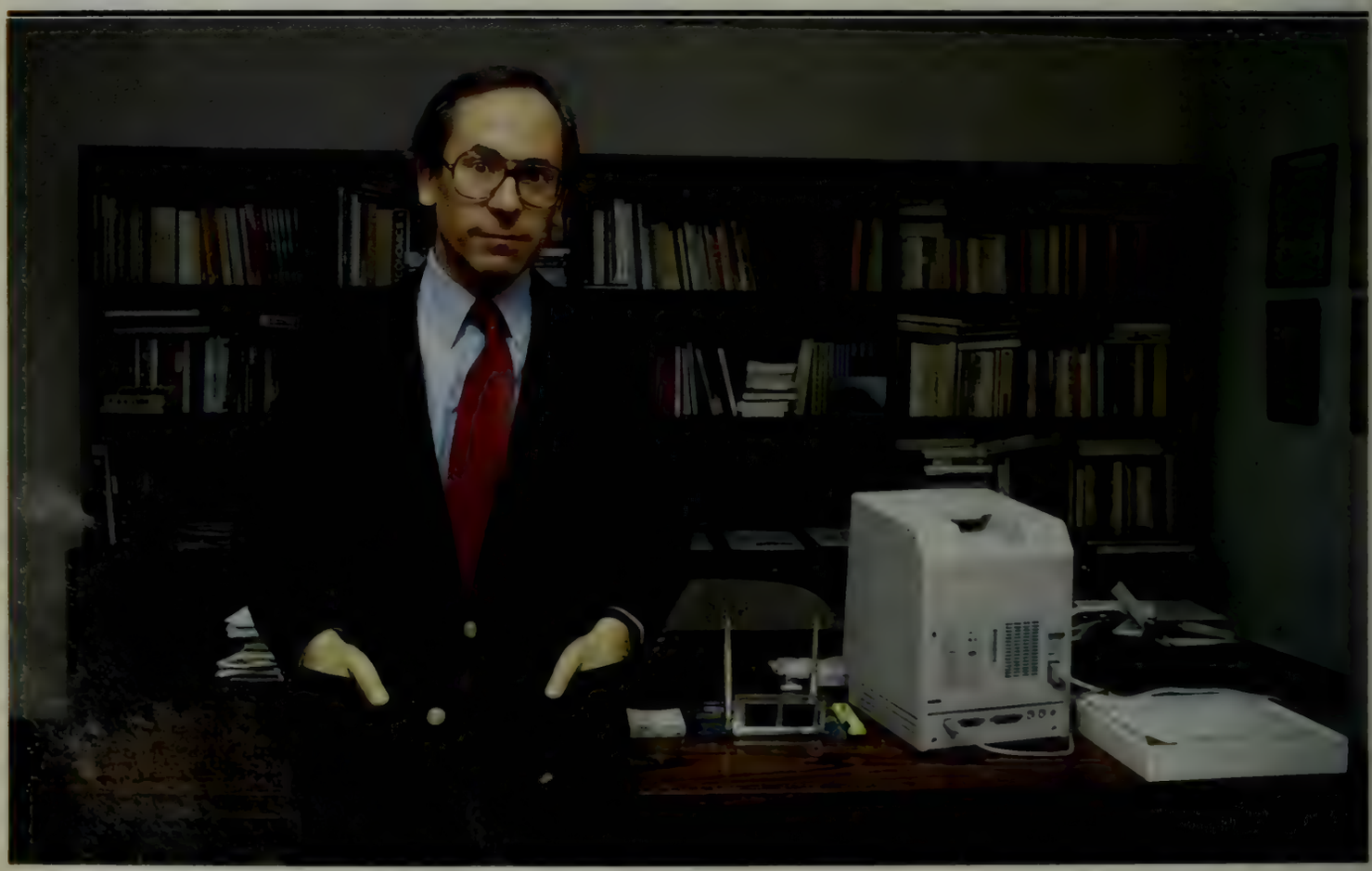
WHEN IT COMES to success stories of market-based reform, few can match what little Chile (pop. 13 million) has done to revamp its social security system.

Ten years ago the military government of General Augusto Pinochet abandoned its own statist principles and enacted free-market reforms. Most of these have been continued by the country's democratically elected government that took over three years ago.

Replacing the old system, then Minister of Labor Jose Piñera put in a plan that requires each of the country's 4.8 million workers to put 10% of his pretax salary into a private pension fund of his own choosing; there are no employer contributions. There are 13 plans to choose from, and workers can switch their funds among managers to get the best returns and services at the lowest cost. Piñera won over workers with six months of weekly TV appearances explaining the new system. "It's a common-sense system," says Piñera, "and is more easily understood by the average Chilean mother than by social security experts."

The only thing this system has in common with the U.S.' is the compulsory contributions. Unlike Chileans, Americans make social security payments to the government, which invests them in government paper. Americans have no choice as to who invests the money or how.

In Chile, at age 65 for a man (60 for a woman) the worker takes the accumulated savings and either buys an annuity or organizes an individual payout schedule. He can retire earlier if he has enough money in his pension fund. To protect workers' savings,



Jose Piñera, former labor minister
Using television to convince the masses of the merits of a private social security system.

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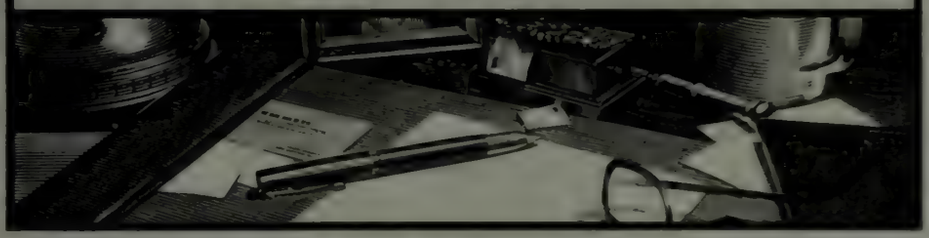

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most of the pension funds are invested in securities automatically indexed for inflation.

How's it worked out? Well. The original plan called for a real rate of return of about 5.5% a year—which would pay a retiree with 40 years of contributions 70% of the average of the last five years' salary, or about $260 a month for the average worker. With a 6.5% return, the payout would rise to 100% of salary. The government does guarantee a minimum pension level equivalent to about 23% of the average salary, or $60 per month.

But the private pension funds have far surpassed that—averaging 13% real growth annually over the last ten years. Not only has the system done better than expected, but the high returns and newfound appreciation for the beauties of compounding have also spurred a rapidly growing number of wage earners to contribute more than the mandatory amount.

How has the Chilean system—or systems—earned such excellent returns? Of course, recent returns are buoyed by a booming stock market. But the big benefit of the system is in investing much of the proceeds in job-creating, wealth-creating private-sector investments rather than in sterile government bonds as in the U.S. All told, Chile's private funds now manage over $9 billion, equivalent to one-third of Chile's gross national product. They are funding a vibrant capital market in Chile, since up to 50% of the portfolios can be put into corporate debt and 30% into corporate equities.

Not only does this system yield good returns, but it also stimulates real growth in the economy. Because of Chile's excellent economic growth rate—averaging 6% in recent years—the Chilean stock market is up 130% this year alone. Fund managers are eager to see that 30% limit on equity investments increased. "Our returns would have been much better if we could have put more money into the stock market," says Martin Gershon, a Bankers Trust director on the board of Provida, the country's largest fund. Soon the Chilean government is expected to allow the pension funds to start investing a limited amount outside the country—seeking returns wherever they can be found.

Shoma Valeska

Neil Allen of Bankers Trust **"The Chileans really did know what they were doing."**

What's good for the country has also been good for the people who run the private funds. Provida is 42% owned by New York-based Bankers Trust. Bankers Trust acquired its stake as part of a $45 million debt-for-equity swap in 1986. Provida has 25% of the market and earned $18 million last year. "We were looking for alternatives to sitting on Chilean debt," says Neil Allen, managing director of Latin American operations for Bankers Trust. The second-largest pension fund manager is Santa Maria, 51% owned by Hartford, Conn.-based Aetna Life & Casualty.

Like U.S. mutual funds, and utterly unlike the U.S. social security system, the Chilean pension funds compete on the basis of investment returns and service. Fees, which average 1% of total wages, have come down by over half since the system was started.

Not surprisingly, both Bankers Trust and Aetna hope to export the pension plan to other countries. Already, delegations from Mexico, Venezuela, Argentina, Poland and Yugoslavia have made their pilgrimages to Chile to check things out.

Are there lessons here for other countries? Undoubtedly. "One of the big benefits of Chile's system is it keeps the money out of the hands of the government," says sociology professor John Williamson of Boston College. The U.S., by contrast, treats social security receipts hardly differently from tax receipts. The U.S. faces a dwindling number of workers supporting a larger number of retired people in coming decades. To prepare for that oncoming gray-out, in 1983 Congress authorized building a surplus that should reach $10 trillion by 2030, which would partially fund the system in the future. But there are problems with that. The money is invested in U.S. government bonds, whose interest must be paid out of tax revenues; none of the U.S. social security money goes into building industrial capital that will produce real earnings in the years ahead. Congress has already dipped into the surplus to fund its deficits.

By contrast, says Augusto Iglesias, chief economist for the pension fund Habitat, the Chilean social security system "is based on very simple and reasonable principles: that people care about their money, that they will work harder if they see the benefit to themselves and that putting it in private hands is more efficient than with the government."

Ironically, the Chilean system was an American export, devised by free-market economists from Harvard, MIT and the University of Chicago. Talk about prophets without honor in their own country.

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THE SPORTING SCENE
Homeric Tales
Roger Angell
May 27, 1991 Page 68

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THE
NEW YORKER
WHEN YOU READ IT, YOU'LL SEE.

Joe Segel, founder of the Franklin Mint and several other companies, was among the first to understand that shopping has become a part of the entertainment business. His latest score: QVC Network.

Don't leave home, period

By Seth Lubove

As the television host calmly describes the Royal Doulton rose mugs up for sale on the QVC shopping channel, Michael Boyd intently watches the personal computer at his desk.

Boyd, 50, is president of QVC Network. He watches the figures skip across the computer screen. They instantly tote up the quantity of mugs sold at $29.97 each (633 in four minutes), the up-to-the-second total haul, and how many of his phone operators are busy. Compare this instantaneous market feedback and inventory control with that of a traditional mass retailer, who waits days, if not weeks or months, for the critical sales data that tell whether a merchandising program is working.

While the recession and heavy debt have laid waste to many old-line retailers, QVC ("Quality, Value, Convenience"), a 24-hour cable channel that reaches over 40 million homes, is posting record sales—estimated by analysts to come in at a little under $1 billion for the fiscal year ending next Jan. 31. Profit estimates range from 20 cents to 46 cents a share, compared with a fat loss last year. Emboldened, QVC has started a new channel that specializes in clothing. "At the same time retailers were wondering where their customers were, our phones were jammed," says Joseph Segel, QVC's founder and chairman.

Segel is the marketing man who created the Franklin Mint collectibles outfit 27 years ago, with an initial investment of $21,000. That business

QVC Network Chairman Joseph Segel and President Michael Boyd
Segel: "I'm always starting businesses I know nothing about."

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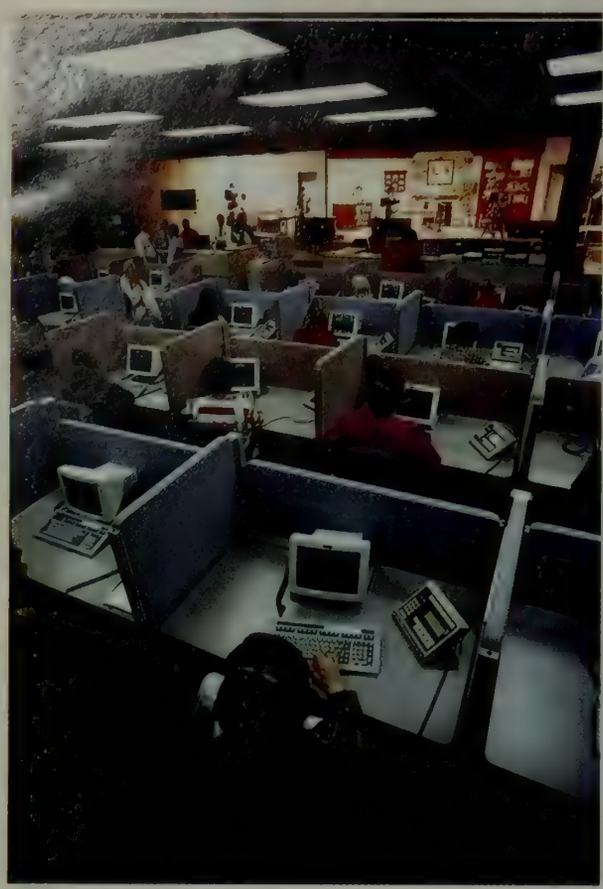

Leif Skoogfors/Woodfin Camp

LEFT: QVC phone operators
ABOVE: Joan Rivers' jewelry catalog
Instantaneous market feedback and inventory control.

has since reportedly grown to $500 million (sales) and sells everything from model cars to porcelain dolls. Segel, who left the Franklin Mint in 1973, is thus a man who knows it is hard to overestimate consumers' capacity to buy stuff they don't need. By marrying retailing to television, Segel was one of the first to recognize explicitly that shopping has become a part of the entertainment industry.

QVC was not television's first national retail channel. That honor goes to Home Shopping Network, founded by Roy Speer and Lowell Paxson, who took it public in 1986 amidst such hype that the fledgling company was accorded a market value of $3.2 billion.

Intrigued, Segel and Boyd, who had also worked for the Franklin Mint, watched a videotaped excerpt of the new channel. Neither had any broadcast experience, but they figured they could do a better job. "I'm always starting businesses I know nothing about," Segel says.

It was about that time that Segel met Ralph Roberts, a fellow Philadelphia businessman and the founder and controlling stockholder of Comcast Corp., the nation's fifth-largest cable television company. "I told him [Segel], 'Forget everything else and jump into the cable merchandising business with both feet,' " recalls Roberts. Comcast bought more than 1 million shares of QVC when it went public in 1986.

Early on, Segel sought to differentiate his program from the aggressive hard-sell format adopted by Home Shopping Network. QVC's low-key hosts prefer talking about how to operate a camcorder or bantering with TV personality Joan Rivers about her line of costume jewelry. QVC further cuts the hype by not telling on-air hosts how many of the items have sold, even though the numbers are posted on home viewers' television screens. "We don't want [the hosts] to pep it up," says Boyd.

There are other differences. QVC's program segments have themes—cooking or collectible dolls, for instance—printed on schedules in advance and mailed to customers. Shipping and handling charges are up on the screen; HSN doesn't give the charges until the customer places an order. Returns, made easy with return mailing labels included with every order, run around 18% annually.

It seems to work. Analyst Mark Riely of MacDonald Grippo Riely figures that QVC should surpass HSN next year as the industry sales leader (exclusive of catalog and shipping). Boyd says 60% of his new customers order again.

Segel did, however, overextend his company in 1989, when QVC paid $464 million to buy another shopping channel, Cable Value Network, which was then twice the size of QVC. Segel boasted that sales of the combined networks would hit $1 billion by 1991, with operating profits of $120 million. But the forecasts exploded in his face as the two channels struggled to merge.

"It was like a boa constrictor swallowing an elephant," says Peter Barton, president of Liberty Media Corp., a QVC director and former president of CVN. Many CVN viewers tuned out when QVC suspended CVN's credit and installment pay plan. Debt ballooned to $400 million in 1990 from $13 million the year earlier, and QVC eventually went into technical default on its bank loans. QVC posted a $17 million loss in 1990.

It was time to swallow hard. After a few months Segel brought back the in-house credit card and installment pay plans. To pay down debt QVC completed a 3.25-million-share secondary offering in September at 14⅝ a share. This enabled the company to pay off half of a costly $61.3 million, 18% note held by Liberty Media. Segel says interest savings, at least $12 million a year, will offset the dilution imposed by the new stock. Falling back in love with QVC, Wall Street has bid the stock from a low earlier this year of 3 per share to a 12-month high of 17. At that price, Segel's 3% of the company is worth $19.5 million.

With QVC in 75% of the country's 54 million cable-subscribing homes, Segel's challenge is to steal more shopping dollars from the stores. The company's first outdoor ad campaign features a prominent two-word message, "Go home," with a QVC logo and copy in small type underneath. It should help that Segel already has a head start on the stores for Christmas; QVC started promoting its holiday sale in July. If Americans can indulge their two great passions—shopping and watching television—simultaneously, there's no telling how far Joe Segel might take his channel. ■

American management should know that capitalism is winning in China too.

Everyone thinks the communists control all of China. Forbes August 5th cover story says they don't. In Guangdong province, the political lackeys marched out. The Avon lady marched in. Along with Heinz, General Foods, P&G and Hong Kong businessmen. Now people gobble up Big Macs® Billboards scream Levi's. Local merchants flaunt portable phones.

The autocrats are terrified. They can't stop the shift in power from the northern bureaucrats to the businessmen in the South. Ultimately, Hong Kong is more likely to control Beijing rather than vice versa.

What can the U.S. do for the cause? Congress should stop trying to end China's most-favored-nation status. Which would only discourage capitalism and bolster the communists.

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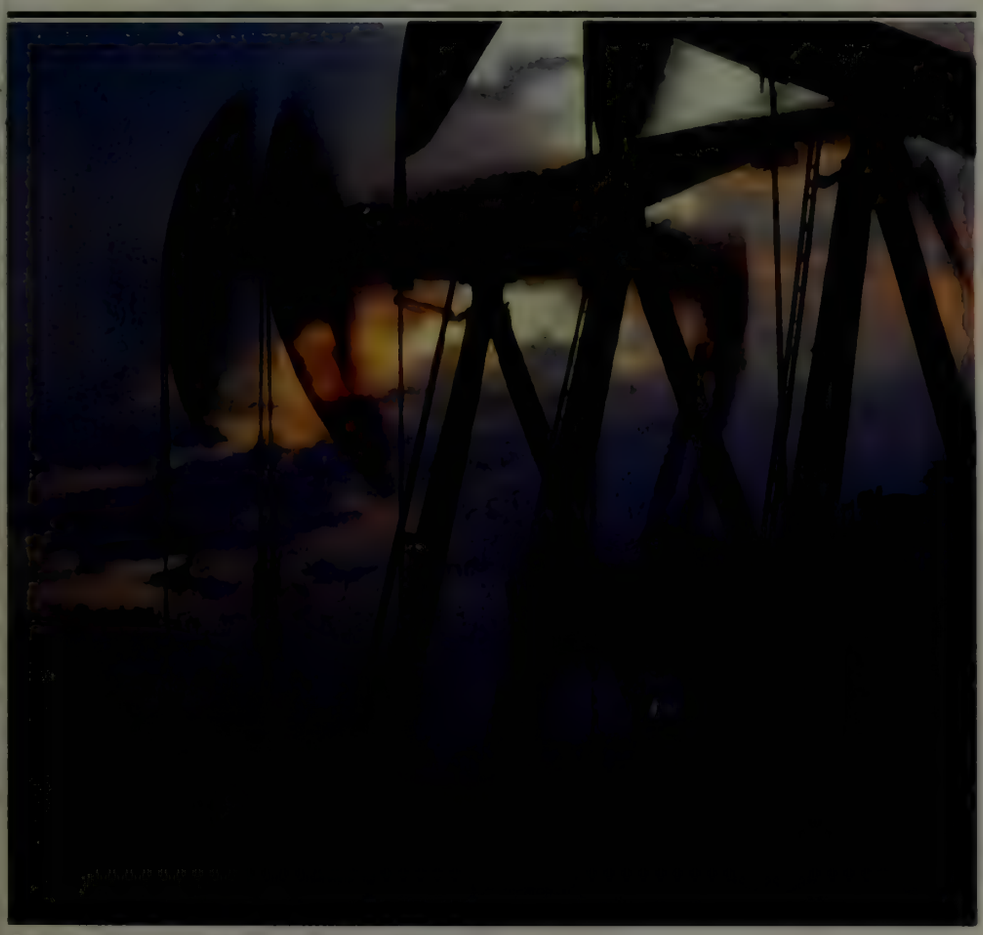
Venezuela has what may prove to be the world's richest oil reserves. Finally its politicians are beginning to allow private capital to help develop those reserves.

A Saudi Arabia in our own backyard?

By James Cook

SO PREVAILING are the capitalist winds blowing across Latin America these days that even the Venezuelans are backing away from their longstanding hands-off-our-oil policy. In Caracas, a political consensus is growing that private capital—foreign as well as domestic—should be allowed to help develop the country's enormous energy potential. As Venezuela President Carlos Andres Perez explained it last month: "The oil industry is so capital-intensive that, regardless of our theory that it is a state industry, we thought it should be opened to the private sector."



Crude production at Venezuela's Lake Maracaibo

How to fund the country's $48 billion expansion program?

Note the pragmatic tone in Andres Perez's remarks. Rich in hydrocarbon deposits, Venezuela is one of the half-dozen countries in the world capable of significantly expanding its oil production. But since nationalizing its oil industry in 1976, Venezuela has steadily lost market share and influence in the international oil business.

Between 1973 and 1987, for instance, its production of crude oil slid from 3.4 million to 1.6 million barrels a day. Production has since increased, to 2.1 million barrels in 1990, with 2.3 million a day so far this year. But even so, Venezuela has lost valuable share of the U.S. import market, its most important market, and has watched its share of production by the Organization of Petroleum Exporting Countries drop by more than half. A founding member of OPEC, Venezuela has lately been relegated to the sidelines as decisions about oil production and quotas were set largely by the political and economic interests of the Middle East producers.

The fault does not lie with Venezuela's national oil company, Petroleos de Venezuela, S.A. In terms of management and efficiency, no nationalized oil enterprise has a better reputation than PDVSA—"Pay-duh-*vay*-suh," as it's known locally. Last year the company generated $23 billion in sales, paid $9.8 billion in taxes and still wound up with a $1.3 billion net profit for the year.

Unlike Mexico, say, Venezuela did not meld the 13 foreign oil companies it expropriated in 1976 into a conventional national oil company charged with providing jobs as well as producing oil. Rather, Exxon's Venezuelan operations were reconstituted as Lagoven, Shell's as Maraven, while 11 smaller companies were combined to form Corpoven. All three were rolled into PDVSA. But Venezuela's oil industry continued to be operated as a commercial and autonomous enterprise, with its three operating arms competing vigorously with one another. Interesting to note, their employees were specifically not civil servants, with the result that PDVSA generates roughly $450,000 in sales per employee. That's considerably less than Amoco's $585,000 per worker

Antagonists Andres Sosa Pietri (left) and Celestino Armas **In a power grab Armas asserted the right to review PDVSA's decisions. Sosa Pietri balked, and eventually Venezuela's president, Carlos Andres Perez, negotiated a truce between the two men. But will it hold?**

but miles ahead of Petroleos Mexicanos, which generates a mere $115,000 per worker.

Venezuela's relative decline among oil producers can be explained by two facts: (1) Much of its oil is heavy and costly to extract and refine; and (2) when prices were high, Venezuela cut back production to conserve its resources rather than maximize its revenues. But the collapse in oil prices in the early 1980s began changing that way of thinking.

Early last year the Venezuelan government approved a massive $48 billion, six-year program designed to increase production by 57%—to 3.3 million barrels a day by 1996 and between 4 million and 5 million bbl./day by 2000. Also in the plan is a fivefold increase in petrochemical refining; a $3 billion liquefied natural gas project (in partnership with Exxon, Shell and Mitsubishi); and a major push to commercialize its vast reserves of very heavy oil and bitumen in the Orinoco Basin.

Traditionally, the heavy and extraheavy crudes that are the principal source of Venezuela's expanded production have been difficult to make much money on. But PDVSA expects to demonstrate that, with new technology, Venezuela's heavy and extraheavy crudes can even be processed into light products like gasoline on an economic basis.

"These [heavy] crudes do not find markets that easily," says Andres Sosa Pietri, PDVSA's president, "so we have to refine more ourselves." But not just in Venezuela. PDVSA's foreign refineries, acquired over the last few years, now process only 64,000 barrels a day of heavy oil. By 1996, they'll be running about 350,000.

Venezuela has proven reserves of around 59 billion barrels, the sixth-largest oil reserve in the world. But the country's long-term energy future depends primarily on the commercialization of the 270 billion barrels of bitumen locked up in the north shore of the Orinoco River. One of the largest petroleum reserves in the world, on a par with Saudi Arabia's, the Orinoco Basin alone could supply the entire world with oil for ten years at current consumption rates—if PDVSA's researchers could figure out how to efficiently commercialize these tarlike bitumen reserves.

And PDVSA is finally beginning to do just that. By combining bitumen with water and a chemical, PDVSA has developed a new liquid fuel, trademarked "Orimulsion," that is designed to supplant coal in many utility markets. With markets opening up in Britain, Canada, Italy and Florida, PDVSA plans to increase production of Orimulsion from 30,000 bbl./day crude equivalent to 700,000 by 1996. It's only a first step, but one that may one day lead PDVSA into refining bitumen into light products like gasoline.

There is a catch. All this expansion costs money, and money is not something that Venezuela, which has just emerged from the worst financial crisis in its democratic history, has a great deal of. Hence the decision of the country's politicians to open the oil industry to private capital.

In an effort to finance PDVSA's ambitions, the Venezuelan congress has already opened petrochemicals and 55 marginal oilfields to private capital (though Venezuela retains nominal control over the oilfields). This fall the congress is expected to approve the $3 billion liquefied natural gas project PDVSA hopes to develop with Shell, Exxon and Mitsubishi off the northeast shore of Venezuela. And, having watched the impact of tax cuts on the U.S. in the 1980s, the government is even attempting to encourage foreign investment by cutting income taxes on joint ventures, from 67.7% to 30%, effective this fall.

PDVSA's Andres Sosa Pietri can envision $11 billion coming from various joint ventures in petrochemicals and natural gas. PDVSA itself can probably put up $30 billion out of retained earnings. But from where will the rest of the funding for the country's $48 billion expansion program come?

In Caracas these days one hears talk about pledging future production against new foreign loans, or offering supply contracts for conventional fuel if foreign oil companies commit themselves to heavy oil development. PDVSA executives talk about using project financing or even selling equity to the public. Whatever options are chosen, it is clear that the government is serious about turning to the private

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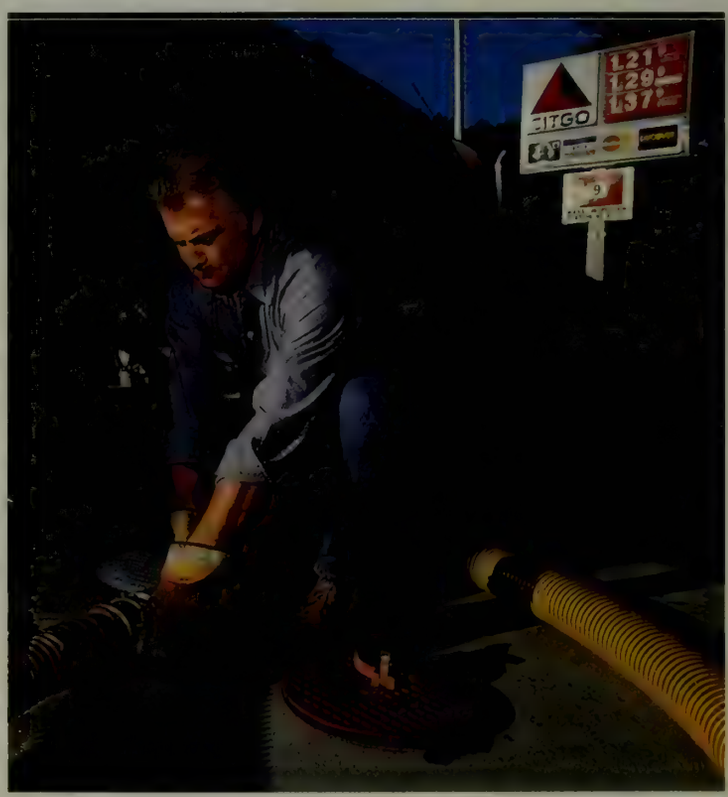
sector for help in reinvigorating the industry. And well it should be serious: Venezuela's oil industry provides 24% of the country's GNP, 83% of its tax revenues and 86% of its export earnings.

Still, not everyone in the country sees things Andres Sosa Pietri's way. A month or so back, he found himself at loggerheads with Celestino Armas, boss of Venezuela's powerful Ministry of Energy & Mines, and the current president of OPEC. In a power grab, Armas asserted the right to review PDVSA's decisions on a wide range of operating matters. Sosa Pietri balked, and eventually Venezuela's president, Carlos Andres Perez, negotiated a truce between the two men. But Sosa Pietri will clearly have to proceed in his expansion plans with a wary eye out for Armas.

Sosa Pietri must navigate another potentially treacherous conflict—between Venezuela's interests and those of OPEC. Like most other OPEC countries, Venezuela has been producing nearly all out since the Gulf war. But what happens next spring if a surplus of oil sends crude prices tumbling? Or a year or two from now when the 5 million barrels of lost Kuwaiti and Iraqi production begin moving into the market? Will OPEC impose quotas to sustain prices—and if it does, will Venezuela comply?

Andres Sosa Pietri responds to such questions cautiously. "Today," he says, "there is no conflict in aims between OPEC and what we want to do in Petroleos de Venezuela. Whatever OPEC decides, we must comply with."

In the past Venezuela has been less inclined than other OPEC producers to cheat on quotas. In recent years, however, PDVSA has moved downstream into refining and marketing on an international scale. It has accomplished this by making a series of small refinery acquisitions in Germany, Sweden and Belgium, and large ones in the U.S., where it has bought various refining and marketing operations, notably Citgo Petroleum Corp., the U.S.' ninth-largest gasoline marketer.



Shawn Henry/SABA

In recent years, PDVSA has bought downstream assets, including Citgo Petroleum Corp., the U.S.' ninth-largest gasoline marketer. Now that it is vertically integrated, the national oil company is less likely to obey OPEC's commands.

In short, PDVSA has become a vertically integrated oil company. It now refines more than 80% of its crude into higher-margined products (versus only 43% 15 years ago), thus capturing additional profit per barrel.

And therein lies a potential rub. With Venezuela now supplying 80% of its refineries' crude needs out of its own production, it is hard to imagine PDVSA bowing to orders from OPEC to curtail its output of crude, and buying some other producer's crude to feed its refineries.

All of this has important implications for U.S. energy policy in the decades ahead. The Gulf war has transformed OPEC. Backed by its special relationship with the U.S., Saudi Arabia is now calling the shots in OPEC, and doing so with uncommon arrogance. "Nobody's got to approve what Saudi Arabia produces," the kingdom's oil minister, Hisham Nazer, reportedly told his fellow OPEC oil ministers the other day. Nazer has made it abundantly clear that Saudi Arabia has no intention of cutting back production to make room for Iraq and Kuwait. It may prove equally intransigent in defending its dominant share of the U.S. import market—a position it assumed at Venezuela's expense in the Seventies.

Yet the bulk of PDVSA's expanded output of crude and refined product is targeted at the U.S. markets. Only 4 days away by sea from the U.S.' Gulf Coast, versus 30 days from Saudi Arabia, Venezuela has always viewed the U.S. as the natural market for most of its output. U.S. producers, however, have previously viewed Venezuela as a low-cost competitor and have done their best to keep its crude out of the market.

U.S. politicians are now again talking about imposing oil import fees to protect the domestic industry. This would give Saudi Arabia, with its uncommonly low drilling and recovery costs, a considerable competitive advantage, and hurt higher-cost Venezuelan oil.

Is this intelligent policy? Henry Schuler, director of the energy security program at Washington's Center for Strategic & International Studies, doesn't think so. "Although Riyadh still appears to be willing to assert its unrivaled oil power in a way that accommodates Washington's economic and commercial interests," says Schuler, "it would be irresponsible to predict that will go on forever." Better, he thinks, to encourage relatively dependable Venezuelan supplies. Assuming Venezuela's politicians continue to open up their oil industry to private investors, wouldn't a relatively stable supplier in our own backyard make sense?

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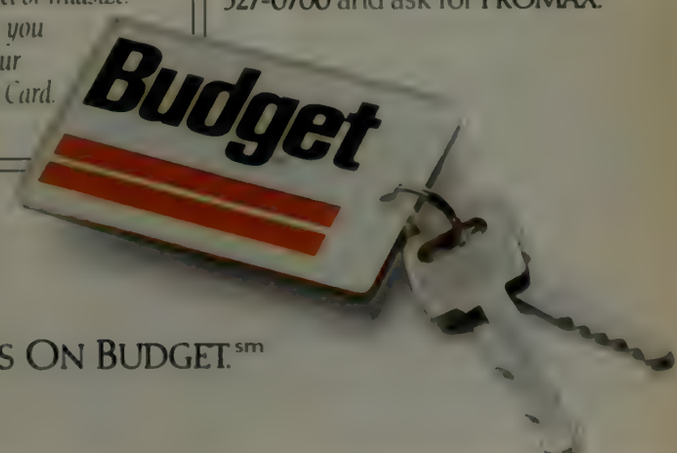

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Samuel Goldwyn Jr. **"It's going to stay a conservative company."**

At an age when most people slow down, Hollywood's Sam Goldwyn Jr. is just getting into his stride. After all, his famous father lived well into his 90s.

Like father, like son

By Kathryn Harris

SAMUEL GOLDWYN, the movie mogul, lived to be 94 and produced over 80 films, including the classics *Wuthering Heights, Guys and Dolls* and *The Best Years of Our Lives.* His Goldwynisms—such as "include me out"—were as legendary as his films.

Goldwyn's son, Samuel Jr., though overshadowed by his father, has been a successful movie producer in his own right *(Man With the Gun, Cotton Comes to Harlem)*. He has handled the theatrical distribution for nearly 60 contemporary films in the past decade, and produced or cofinanced 8 movies, including *Mystic Pizza* and *Prayer for the Dying.*

Goldwyn Jr. seems as durable as his dad. At 65 he is about to take his privately held Samuel Goldwyn Co. public by acquiring a movie theater company. By the end of this month Goldwyn is expected to close on a deal to acquire ailing Heritage Entertainment Inc., which filed Chapter 11 nearly a year ago. The allure: a Heritage subsidiary that operates 42 specialty movie houses, including 6 owned by Goldwyn affiliates.

Goldwyn first invested in a movie house back in 1985, when he needed an outlet for first-run films in Los Angeles. From the start, the four-screen Samuel Goldwyn Pavilion Cinemas has been managed by Landmark Theatre Corp., a Los Angeles company acquired by Heritage in 1989. Still intact is the Landmark management team, headed by Stephen Gilula, who cofounded the company in 1974 and will continue to run the theater division for Goldwyn.

Goldwyn will assume Heritage's bank debt of $12.5 million, and issue $9.5 million in Goldwyn stock and warrants to Heritage's shareholders and unsecured creditors. Goldwyn will emerge as a publicly traded company valued at about $117 million, with over 87% in family hands.

The deal represents a kind of forward integration for the Goldwyn company. Its releases like *Gregory's Girl, Klaus Barbie* and *Henry V* are nurtured in the kinds of specialty movie theaters that Goldwyn is acquiring. The acquisition assures a

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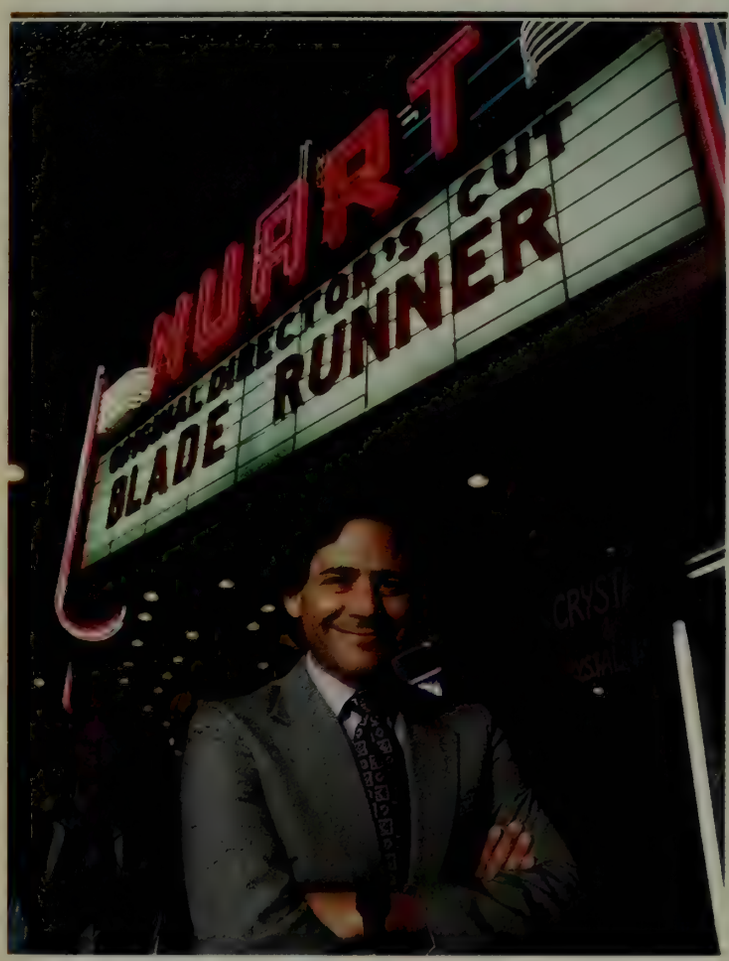
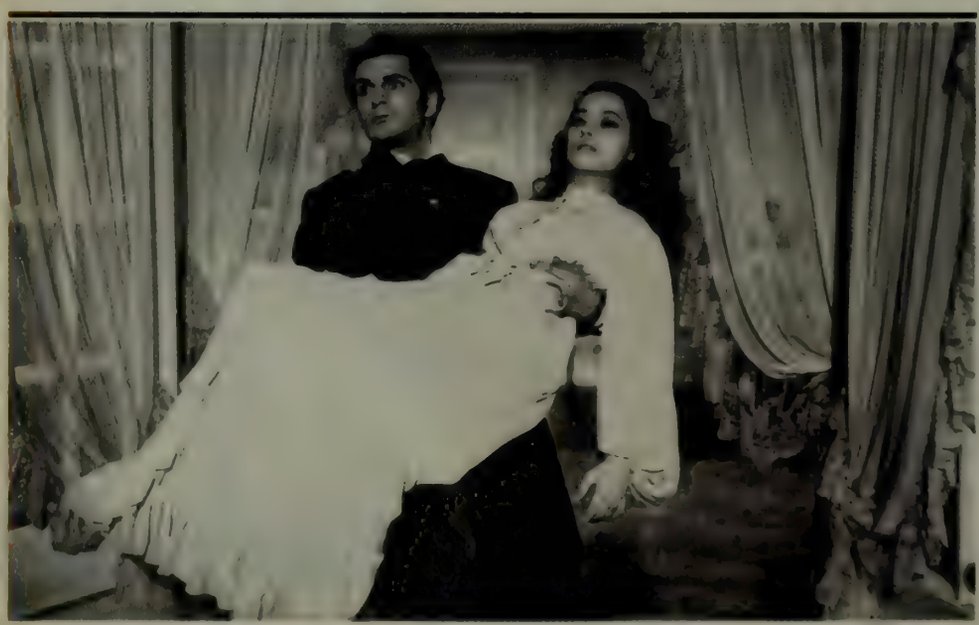
continued outlet for the films and provides a base for expansion. The movie houses, in Los Angeles, Seattle, Milwaukee and 14 other cities, generate over $30 million in cash flow, which should help ease volatility in the company's earnings. Goldwyn's net income was a scant $76,000 on revenues of $49 million for the fiscal year ended Oct. 31, 1990, compared with net income of $2.6 million on revenues of $32 million in 1986.

Few of Goldwyn's films are for the mass market. Critics say he's missed some opportunities to cash in on potential hits like *Mystic Pizza* and *La Femme Nikita* by not distributing them more widely. *Mystic Pizza* boosted the career of actress Julia Roberts but grossed less than $13 million at the box office. Goldwyn says he pushed those films as far as he could.



Tonya Ewalt

Stephen Gilula, president of Landmark Theatre Corp. **Since the 1974 purchase of the Nuart in Los Angeles, Landmark has become the nation's biggest operator of specialty movie houses.**



Samuel Goldwyn

BELOW: "Wuthering Heights" **The elder Goldwyn produced the 1939 classic starring Laurence Olivier and Merle Oberon.**

That Goldwyn makes money at all in this restricted market is something of an accomplishment. His company has posted a profit in four out of five years. One reason is that Goldwyn watches costs carefully—a rare quality in Hollywood. He says no film budget he has been involved in has exceeded $8 million unless the company has found financial partners.

Goldwyn operates from a five-story office building near Century City, with just 97 full-time employees. Meyer Gottlieb, a former Price Waterhouse accountant and Goldwyn business associate for 16 years, serves as president and chief operating officer. As an example of the Goldwyn-Gottlieb caution, the pair allowed themselves to be outbid in 1980 by Warner Bros.—now Time Warner—for Goldwyn Sr.'s Hollywood studio. Goldwyn has no regrets. The facility would have become a burden, he says, owing to the shift to location filming and frequent cancelation of TV series.

The two men worked to capitalize on Goldwyn Sr.'s film library, then began acquiring contemporary films for distribution. Goldwyn now has distribution rights to over 350 movies, and will gain another 122 with the Heritage acquisition, along with such TV series as *Flipper* and *Gentle Ben*.

In TV, Goldwyn hopes to deliver one new series annually for the independent television market, in the wake of its success with *American Gladiators*, an action/game show in its third season. It is generating more than $10 million in annual revenues; the TV licensing of Goldwyn Sr.'s movies still brings in at least $2 million annually.

Backed by a $90 million line of credit from Bank of America—long his father's banker—and secure in control of the Landmark movie houses, Goldwyn plans to increase his production and distribution of wide-release films. His current effort, *Livin' Large!*, is faring poorly despite its release in 800 theaters. Still Goldwyn says he'll keep his new film budgets under $10 million: "It's going to stay a conservative company." The big Christmas release? *Madame Bovary*.

Goldwyn Sr. was something of a maverick as well as a beacon of good taste in a frequently tasteless business. Like father, like son. ■

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READING BETWEEN THE LINES

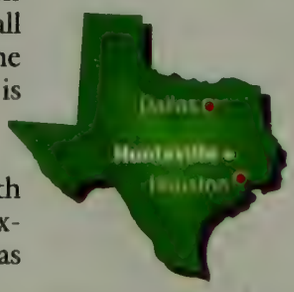
In most places, rising lawlessness is bad news. Not in Huntsville, Tex.

The town where crime pays

By William P. Barrett

MURDERERS, RAPISTS, robbers, burglars, drug offenders: Tiny Huntsville, Tex. has thousands of them. Damn good for business, too.

That's because Huntsville's basic industry is criminal justice. Within its borders: four state prisons, the giant Texas prison system's central administration and the world's largest criminal justice school. Throw in the county jail, a half-dozen or so law enforcement agencies, defense attorneys, judges, bail bond outfits and the tourists drawn to all this, and you start to get the full picture: Huntsville is the town where crime pays.



Situated 70 miles north of Houston in the East Texas woods, Huntsville has about 23,000 residents who aren't in the slammer. Some 6,200 prisoners are, more than in almost any other small city in the country. Another 4,200 inmates reside in two other state prisons just outside town. Prisoners require guards, cooks, supervisors and, every three months or so in Texas, an executioner. Quite a multiplier factor so far as local employment is concerned. Way over half the local economy can be traced to criminal justice.

Given the state of crime in the nation, Huntsville is prospering. The local unemployment rate of 3.5% is barely half the state's 6.3% and the national average of 6.5%. A relatively tight housing situation keeps rents and property values surprisingly high for small-town Texas. Even though most felons aren't allowed to vote, prisoners are counted as Huntsville residents in census tallies, giving the city extra representation in the state legislature.

Photographs by Michael Murphy

ABOVE: "Old Sparky"
RIGHT: The Walls
Surrounded by homes just off Huntsville's main square.

A direct beneficiary of crime
One of the first sights to greet newly released prisoners.

By far the biggest local employer (annual payroll, $125 million) is the Texas Department of Criminal Justice, which operates the 6 state prisons around Huntsville and 29 others statewide. The department has 5,300 employees in the Huntsville area—triple the staffing of a decade ago, thanks to more prisoners and court-ordered staffing increases. The work force includes 250 higher-paid administrators who oversee a statewide prison budget of $700 million. The highest paid: Executive Director Jim Lynaugh (annual salary, $90,780), who lives rent-free in a grand, inmate-built mansion.

Huntsville has been profiting from crime since 1849. That's when Texas

opened its first prison on a 99-acre site purchased for $493. Opening day saw three prisoners: a horse thief, a cattle rustler and a killer. The city basically developed around its prison nucleus. The oldest prison unit and the symbol for the entire system is nicknamed "The Walls" for its forbidding, 25-foot-high brick facade. It's just two short blocks east of the main square on a hill in a residential neighborhood. The prison administration headquarters is across the street.

A few blocks to the south: the block-long Criminal Justice Center at Sam Houston State University. No surprise the facility, which includes a 196-bed hotel, resembles The Walls—inmates built both. About 1,400 students, 11% of Sam Houston's total enrollment and many of them prison employees, pursue criminal justice degrees, including the university's only doctoral program. In addition, 18,000 law enforcement personnel attend continuing education programs each year.

Crime benefits Huntsville's economy in other ways, too. Local banks hold $10 million in prison system deposits. Ten motels thrive on the many visits from salespeople seeking prison business and family members coming to meet incarcerated relatives.

The 70 or so prisoners released from The Walls every day are given $200 apiece in "gate money"—more than $5 million a year. Probably half gets spent before they leave town, buying a beer or two, clothing at places like Bustin' Loose Mens Wear and one-way transportation, usually to Houston or Dallas. Then there's the hot competition for moving the former prisoners out of town. Greyhound relocated its bus station near the prison. A squad of private van owners parks outside to offer slightly more expensive rates—but straight to the inmate's home.

Unfortunately, not everyone leaves town. Police Chief Hank Eckhardt says a rising drug problem may be partly caused by released inmates who elect to stay in Huntsville. Then there is the image problem of trying to spur economic development in a town that turns up in the news only after executions or jailbreaks. Perhaps wisely, civic leaders recently scrapped an "escape to Huntsville" theme.

But hey, business is business. Tourist guides include a driving tour map of area prisons. One store in an ex-lockup calls itself the Ole Jailhouse. Huntsville's newest tourist attraction is the Texas Prison Museum, housed in a busted-bank building on the main square. Visitors can view "Old Sparky," the retired Texas electric chair, and rifles wielded by Bonnie and Clyde. "Get to know the characters of the past, on both sides of the bars," its flyers say. Sounds about right. ■

Ready to give some money to charity? At this time of year you may be feeling generous. But don't touch that wallet! Before you shell out another dollar, take a look at how your favorite charity spends your money.

Charity checklist

By James Cook

Direct public support $million	as % of total revenue	Organization	Program commitment index* (%)	Fundraising efficiency index† (%)
$288	20%	American National Red Cross[5]	89%	92%
282	79	American Cancer Society (Group)[5]	42	82
214	79	United Jewish Appeal of New York	85	91
176	98	United Way of Tri-State	96	98
153	70	Nature Conservancy	73	88
152	40	Shriners Hospital (National)[5]	95	100
138	98	World Vision Inc[5]	70	79
137	98	Institute of International Education	97	100
136	51	American Heart Association (Group)[5]	79	76
124	88	Campus Crusade for Christ (Intl HQ)[3]	85	92
108	91	Muscular Dystrophy Association	67	79
93	99	United Way Crusade of Mercy (Chicago)	93	95
88	86	Christian Children's Fund	82	88
87	88	March of Dimes Foundation (Group)[5]	53	88
79	40	Metropolitan Museum of Art (NY)	92	98
78	86	American Lebanese-Syrian Associated Charities[5]	79	78
75	89	Jewish Federation Council Greater LA	84	89
73	89	Billy Graham Evangelistic Association	86	95
70	112[4]	Covenant House (National)[5]	23	78
64	67	Rotary Foundation of Rotary International	87	90
63	39	Christian Broadcasting Network	77	76
61	97	United Way National Capital Area	91	93
58	96	United Way Southeastern Michigan	90	93
55	53	Educational Broadcasting Corp	75	74
55	84	Disabled American Veterans[5]	70	65
53	98	United Way Southeastern Pennsylvania	2	93
52	57	Lincoln Center for the Performing Arts	89	98
50	44	Metropolitan Opera Association	88	84
46	94	Mothers Against Drunk Driving	70	75
42	86	United Negro College Fund	75	78

*Program services as a percent of total expenses. †Percent of direct public support remaining after fundraising. [1]Fiscal 1989. [2]Fiscal 1991. [3]Data from financial report. [4]Exceeds 100 because of accounting for extraordinary loss. [5]Unconsolidated data of national and affiliated groups may skew results. [6]Does not include organizations with no fundraising costs.

DESPITE THE media chatter about greed, Americans are generous people. Last year they contributed $123 billion to an endless array of community and charitable activities—health research, art museums, protecting the environment, inhibiting drunk driving. This on top of the huge amounts they contribute to social welfare programs through their taxes.

It's well known that governments are inefficient users of this money, wasting much of it on bureaucracy. How about the private pro bono organizations? How efficient are they? In fact, they vary all over the lot. Most Americans are astonishingly indifferent to how effectively charitable organizations use the money that comes their way. The organizations themselves are no better. As they tend to see it, the righteousness of their cause assures the integrity of their conduct, and anyone who suggests otherwise had better watch out.

With the prime giving season coming up, this list is an attempt to provide a prospective donor with some statistical guidance in assessing the commitment and efficiency of 127 of the U.S.' leading charitable and cultural organizations. The statistics are imperfect, but not so imperfect that they don't throw up some warning signals.

Take the American Heart Disease Prevention Foundation of Fairfax, Va. Only 5% of the nearly $4 million it raised last year went to the programs for which the group was organized. A huge 90% went to the costs of fundraising. This includes 15% in professional fundraising fees, 18% in postage and shipping, and 15% to buy or rent mailing lists.

1991 issue
Robert Montgomery and Partners

It's been said our nation
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Chariots to drool over.
Jewels to faint over.
You've never been to Hollywood?

US

THE ENTERTAINMENT MAGAZINE

Direct public support (million)	as % of total revenue	Organization	Program commitment index* (%)	Fundraising efficiency index† (%)
$41	46%	Save the Children Federation	84%	83%
41	62	Jewish Communal Fund of New York	99	100
38	17	Catholic Relief Services	92	87
35	76	Project Hope (People-to-People Health Fndn)	90	93
35	80	Greenpeace USA[1,5]	55	74
33	20	New York Public Library	89	86
32	79	Compassion International	84	89
32	93	Jewish Welfare Federation	88	91
31	11	CARE	92	59
30	75	National Merit Scholarship Corp	97	98
30	77	Combined Jewish Philanthropies (Boston)	83	94
29	68	Jewish Community Federation of Cleveland	87	94
28	11	Smithsonian Institution	96	87
28	91	Foster Parents (Plan International USA)[5]	76	84
25	24	WGBH Educational Foundation	79	71
24	37	March of Dimes Foundation (National)[5]	65	64
23	21	Art Institute of Chicago	67	86
23	57	Father Flanagan's Boys Home[5]	82	72
23	51	Planned Parenthood Federation of America[5]	64	72
22	78	American Friends Service Committee	75	88
22	47	United States Olympic Committee	80	75
22	82	Music Center of LA County[5]	87	91
22	84	North Shore Animal League	64	67
22	78	The Associated Jewish (Baltimore)[5]	92	93
21	37	City of Hope	75	75
21	73	United States Committee for UNICEF[5]	13	75
20	91	Statue of Liberty-Ellis Island Foundation	85	85
20	32	John F Kennedy Center	70	86
20	99	Amnesty International of the USA	66	71
18	36	Cystic Fibrosis Foundation (Group)[1,5]	30	89
17	84	Trust For Public Land	83	96
17	29	Museum of Modern Art (NY)	85	94
17	15	The New York Community Trust	87	98
16	51	Leukemia Society of America (Group)[5]	43	81
16	83	St Labre Indian School[2,3]	73	84
16	21	Museum of Fine Arts (Boston)	44	95
16	20	National Wildlife Federation[5]	86	70
15	19	National Gallery of Art	59	96
13	35	National Audubon Society[5]	72	78
13	42	Arthritis Foundation (National)[5]	69	75
13	87	Environmental Defense Fund	78	80
12	16	National Benevolent Association (Disciples)	89	74
12	42	Special Olympics International[5]	70	69
12	97	Oxfam-America	76	83
11	20	New York Zoological Society	90	78
11	16	Colonial Williamsburg Foundation[1]	71	79
11	29	Sierra Club[5]	66	54
10	16	American Museum of Natural History	83	91
10	97	American Civil Liberties Union Inc[1,5]	22	84
9	78	American Civil Liberties Union Foundation[1,5]	71	93

*Program services as a percent of total expenses. †Percent of direct public support remaining after fundraising. [1]1989 fiscal. [2]1991 fiscal. [3]Data from financial report. [4]Exceeds 100 because of accounting for extraordinary loss. [5]Unconsolidated data of national and affiliated groups may skew results. [6]Does not include organizations with no fundraising costs.

Most Americans are astonishingly indifferent to how effectively charitable organizations use the money that comes their way. The organizations themselves are no better. As they tend to see it, the righteousness of their cause assures the integrity of their conduct.

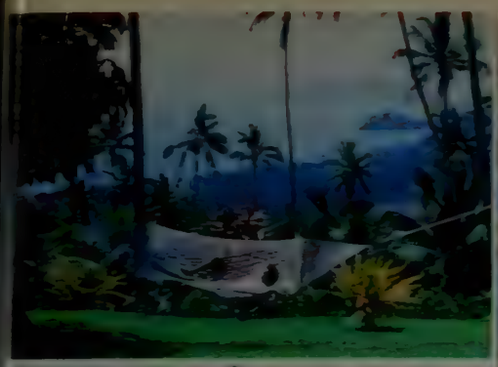
Our point is this: Since you probably have only a finite amount of money to give to worthy causes, you ought to know which among them will use your money most effectively. Hence these tables.

If you feel you need to know more, there are two organizations that were created to assess charitable management: the Council of Better Business Bureaus' Philanthropic Advisory Service in Arlington, Va. and the National Charities Information Bureau in New York City.

Arranged in order of revenues directly supplied by the general public, the FORBES list provides two basic indexes. The first is a Program Commitment Index: How much of the total funds that an organization spends, including funds from various other sources, goes to doing the job for which the organization was created. So a prospective donor may ask, how come the American Cancer Society (Group) commits only 42% of its spending to program services? Why does the Leukemia Society of America (Group) commit only 43% or Covenant House 23%?

There may be reasons for a low commitment ratio, not the least of which is that affiliated groups may be kicking funds up to the national organization, as the Cancer Society's local affiliates are. Or, vice versa, the national organization may be fundraising for its groups, as in the case of the American Diabetes Association (National). Such special cases aside, the Philanthropic Advisory Service considers 50% as an absolute minimum acceptable ratio of commitment to total receipts.

The second measure is an Efficiency Index: How much of the funds raised from the general public are



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FORBES MAGAZINE'S Laucala ISLAND

Direct public support $million	as % of total revenue	Organization	Program commitment index* (%)	Fundraising efficiency index† (%)
$9	61%	Boys & Girls Clubs of America (National)[5]	76%	83%
9	30	National Multiple Sclerosis Society[5]	69	59
9	29	Lighthouse (NY Association for the Blind)	86	86
9	83	Epilepsy Foundation of America	66	70
9	47	ASPCA	60	60
9	23	International Rescue Committee	93	90
9	33	Shriners' Hospital (Mass)[5]	100	100
8	61	Whitney Museum	78	90
8	32	Orange County Center (Performing Arts)[1]	65	83
8	27	Philharmonic-Symphony Society of NY	79	85
8	22	Population Council	88	98
8	48	Toledo Museum of Art (Ohio)	74	90
7	10	Zoological Society of San Diego[1]	72	89
7	28	Museum Associates (LA)	74	96
7	85	American Foundation for Aids Research	86	88
7	10	Children's Television Workshop	86	94
6	71	Sierra Club Legal Defense[5]	70	77
6	8	American Heart Association (National)[5]	86	45
6	37	United Service Organizations (World HQ)[1 5]	78	74
6	25	National Urban League	78	88
6	89	NAACP (Special Contributions Fund)	78	83
6	5	Legal Aid Society of New York	95	93
6	93	Sierra Club Foundation[5]	76	88
5	20	Museum of Science and Industry[1]	50	88
5	32	National 4-H Council[2]	82	88
5	48	YWCA of the USA National Board[5]	79	92
5	26	Walker Art Center	56	90
5	20	Field Museum of Natural History	67	53
5	24	New York Shakespeare Festival	82	87
4	16	American Diabetes Association (National)[5]	64	38
4	6	Guideposts Associates	92	50
4	28	MSPCA (Mass)	81	78
4	13	Children's Aid Society	89	85
4	5	Boy Scouts of America[5]	80	97
4	37	National Easter Seal Society[5]	84	76
4	11	United Way of America[5]	90	94
4	100	American Heart Disease Prevention Foundation	5	10
3	3	Devereux Foundation	92	85
3	35	Huntington Library & Art Gallery	79	89
3	21	United Charities (Chicago)	81	88
3	40	Helen Keller International	77	84
3	97	Friends of the Earth (Environmental Policy Inst)	84	91
3	56	Runyon-Winchell Cancer Research Fund	84	84
3	39	National Kidney Foundation[5]	88	87
2	4	Jewish Board Family and Children's Svcs	88	73
2	31	NAACP (National)[5]	81	90
2	6	Cystic Fibrosis Foundation (HQ)[1 5]	77	-39
4,497	—	Average[6]	76	82

*Program services as a percent of total expenses. †Percent of direct public support remaining after fundraising.
[1]1989 fiscal. [2]1991 fiscal. [3]Data from financial report. [4]Exceeds 100 because of accounting for extraordinary loss.
[5]Unconsolidated data of national and affiliated groups may skew results. [6]Does not include organizations with no fundraising costs

How much money goes to fundraising? Take the American Heart Disease Prevention Foundation, for instance. Only 5% of the $4 million it raised last year went to the programs for which the group was organized. A huge 90% went to the costs of fundraising.

available for the organization's general purposes. By this measure, the American Heart Disease Prevention Foundation may be the worst, but it has some strong competition. Last year, after recovering its fundraising costs, the American Diabetes Association (National) had only 38 cents left out of every dollar. These low scores contrast with the group's average of 82 cents.

The indexes have their limitations. Because Cystic Fibrosis Foundation headquarters fundraises for its affiliates, for example, it spends more on fundraising than is received in direct public support, yielding a negative index. For organizations that depend heavily on government or other revenue sources—the American National Red Cross, say, or CARE—what it costs them to raise money from the general public is not the whole story. On the other hand, a few organizations seem to have no fundraising costs at all—the Shriners Hospitals, for instance—because their fundraising costs are handled on their behalf by their member affiliates.

Many large organizations do not appear on the list at all—some religious organizations, which are not required to report to the Internal Revenue Service, decentralized organizations such as the YMCA that do not consolidate their affiliated member organizations.

The statistical base of this survey is the Form 990 financial statements that tax-exempt organizations filed with the Internal Revenue Service for fiscal 1990 (unless otherwise noted), and which are no more reliable or consistent than the organizations that filed them.

The list was compiled by Reporter Brigid McMenamin.

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How do bond traders get rich? Illegal market corners are just one way. Smart software is another. Salomon apparently was ahead in both areas.

The mouse that trades

Eric Rosenfeld
The traders built the computer system they wanted.

By Laura Jereski and Jason Zweig

WHATEVER HAPPENS to Salomon Brothers Inc., the firm has one valuable intangible asset that will probably survive the Treasury bond scandal: technology. Over the past year the firm has spent about $100 million on its trading system, which includes a network of Sun Microsystems workstations, an IBM mainframe and what are probably hundreds of thousands of lines of in-house software written in C, the favorite programming language of desktop computer jocks.

Presiding over the Treasurys side of this system is government bond trading chief Eric Rosenfeld, a former assistant professor at Harvard Business School with a Ph.D. in finance from MIT, who looks not so much like the 38-year-old investment banker he is as a young nerd from the MIT computer lab.

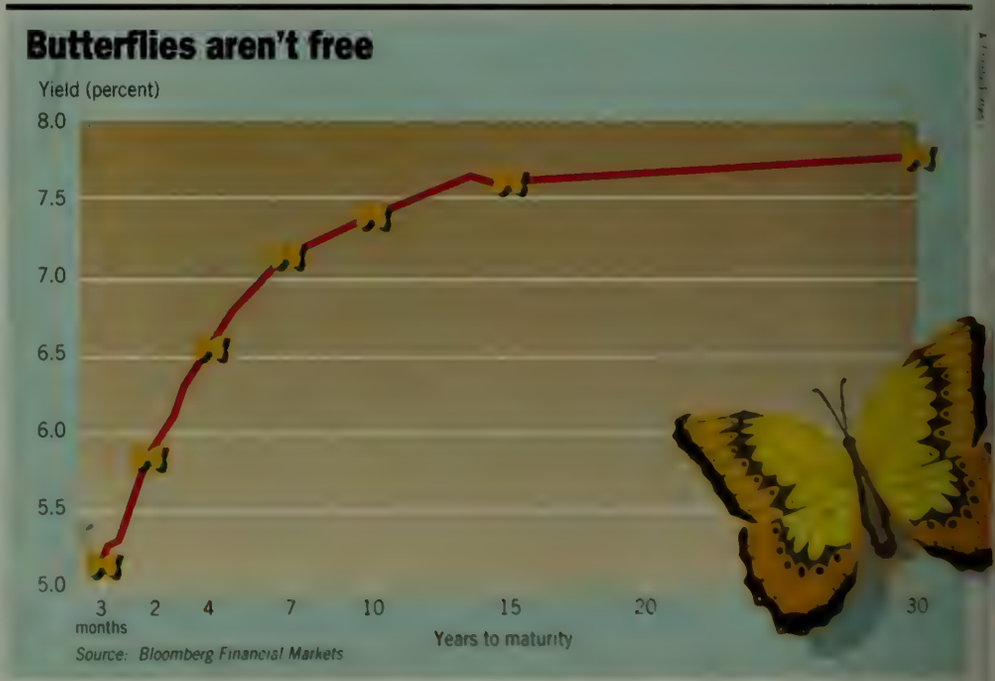
It's not only among bond traders that technology has been redefining financial services. Citicorp stole a march on consumer banking competitors by developing its own automatic teller machines; Merrill Lynch patented the software behind its Cash Management Account innovation. Now software is redefining the trading room. The sharpest bond trader is helpless without pricing data and the means to process it rapidly, preferably in no more than a few seconds. Once a business where street smarts were all, bond trading is now a business for mathematicians.

Salomon set out three years ago to replace its cumbersome internal trading and communications system. The IBM mainframes and the Prime minicomputers that supported them simply could not handle the firm's trading volume, which averaged some $6.7 million per trading day last year. Keypunch operators often toiled into the wee hours inputting trades from the previous day that the IBM mainframe could not record.

Worse, the system wasn't set up to handle the rising flood of price quotes on new instruments like futures, options and other derivatives. Result? Screen clutter. Salesmen's and traders' desks were crowded with terminals from Reuters, Telerate, Quotron, Knight-Ridder and others, each delivering separate streams of data that had to be keyed into and analyzed on yet another terminal.

So Salomon undertook a $250 million project named Technology Platform for the 21st Century, or TP-21. The goal has been about half achieved. It is to build separate but interdependent Ethernet networks around Sun Sparc workstations all of which run on the Unix operating system. Every department—government bond trading, bond arbitrage and equity trading—would have its own Sun server, each with 5 to 60 workstations. "Relational database" software from Sybase stores the trading information.

For a bond salesman, the new setup seems simplicity itself, despite the complexities behind it. Gone are the banks of terminals. A single Sparcsta-



Salomon spent millions on a computer system to spot profitable arbitrages on the U.S. Treasury yield curve, such as the classic "butterfly spread." In this play the bond of one maturity is bought while bonds of neighboring maturities are shorted.

Marvin K. Yoeff/NY1 Pictures

tion delivers all the market information the salesman needs on a series of electronic pages. Here is how the terminal on Rosenfeld's desk looks: Each page is devoted to a single market—Treasurys, say, or mortgage-backed securities. The computer program takes raw data on Treasury prices as it comes over the wire from such providers as Cantor, Fitzgerald Securities, Garban Securities and Liberty Securities, and fits it on one of three or four windows per page. The dark blue numbers on the pale blue screen instantly begin flashing whenever a price changes.

The trader no longer needs to labor over calculations on a separate terminal or calculator: The computer is programmed with Salomon's own algorithms, which highlight profitable discrepancies.

The difference for bond traders is even more dramatic. Until summer 1990, the ten-year Treasury bond trader, for example, tracked on paper the 30 or more issues he or she traded, pencilling down position changes as trades occurred. A good trader had a sense of his or her profit or loss—but could not know exactly.

Executing a trade could take as long as five minutes. Take a very simple arbitrage called a butterfly spread, a hedge in which two "wings" are traded for a single "body." Here's how it works. In a government bond market that is behaving normally, U.S. Treasury bond yields should climb steadily with years to maturity, thus forming the familiar upward-sloping yield curve *(see chart)*. But sometimes during the course of a trading day the curve will get jagged intervals. Traders who spot these blips will do a quick arbitrage that capitalizes on the irregularity.

One recent afternoon, for instance, the Treasury 6⅞s of August 1994 were priced to yield 6.26% to maturity, while the 7s of September 1996 were priced to yield 7% and the 8¼s of July 1998 were priced to yield 7.29%. Thus, there was a 74-basis-point jump in yield as you went from the three-year bond to the five-year bond, but a mere 29-basis-point jump from the five-year to the seven-year bond.

This indicated to traders that the issue in the middle seemed to be offering too good a return, relative to the other two. It should have been closer to midway between its neighbors in yield. It was priced too cheap.

Sharp traders captured a profit by buying the five-year bond and shorting the others. This isn't a perfect arbitrage, since the irregularity could persist. But it was unlikely to persist. A profit was highly likely, as the kink in the yield curve flattened out.

The key point here is that the trader takes no chances with the general direction of interest rates. If he is long $30 million of bonds with a maturity of five years, he is simultaneously short a $30 million portfolio of very similar bonds with an average maturity of five years.

Just a few years ago, a bond trader would sit at his Quotron terminal and type in coupon, maturity, price, settlement date and target spread for each issue, calculate at what point the trade would become profitable and then write out three separate tickets to execute the order. No longer. Salomon's system flags the pricing disparities and the trader has only to approve the trade with a few clicks of a mouse. Mere seconds have passed.

But the biggest advantage for the traders is their new ability to monitor their positions. Relying on a real-time (that is, undelayed) data feed of bond futures prices and Treasury bond trades, each trader can set up his portfolio to adjust automatically to any trade. At any moment, he knows his profit or loss on each security and his entire portfolio. He can more effectively monitor the risks involved in taking on larger positions. In a few seconds, links with trading desks in London and Tokyo wire information that used to take far longer to convey over the telephone.

Developing this highly efficient system was no mean feat. The firm needs a degree of uniformity from trading desk to trading desk. But the traders want autonomy and independence, so they opted to have each department hire its own programmers to design the computer functions it wanted. "If you make a mistake, it's only on one system," explains government bond trading chief Rosenfeld, one of the architects of the bond software. "And the next group can learn from your mistakes."

That's true, but departmental autonomy makes it that much harder for the firm's managers and compliance officers to keep an eye on what is going on. For this very important reason, TP-21 isn't ready for the 21st century just yet. Salomon has yet to integrate each department into its back office, where trades are processed and records kept. And the existing systems have to be scaled up to suit the entire firm. The bond trading system, for example, now runs on about 25 workstations in New York, London and Tokyo; it must someday reach salespeople in each of the branch offices, where trades are still being keyed by hand into the mainframe and reconciled with data on the workstations at the end of the day.

It's possible that a more tightly monitored trading system would have kept Salomon out of the legal mess it is in now. But a centralized computer system might also have stifled the creativity that mathematicians and traders had to bring to the job if they were to stay competitive. ■

It pays to be skeptical about the announcement of a revolutionary computer technology. There's many a slip twixt announcement and event.

Vapordisk

By David Churbuck

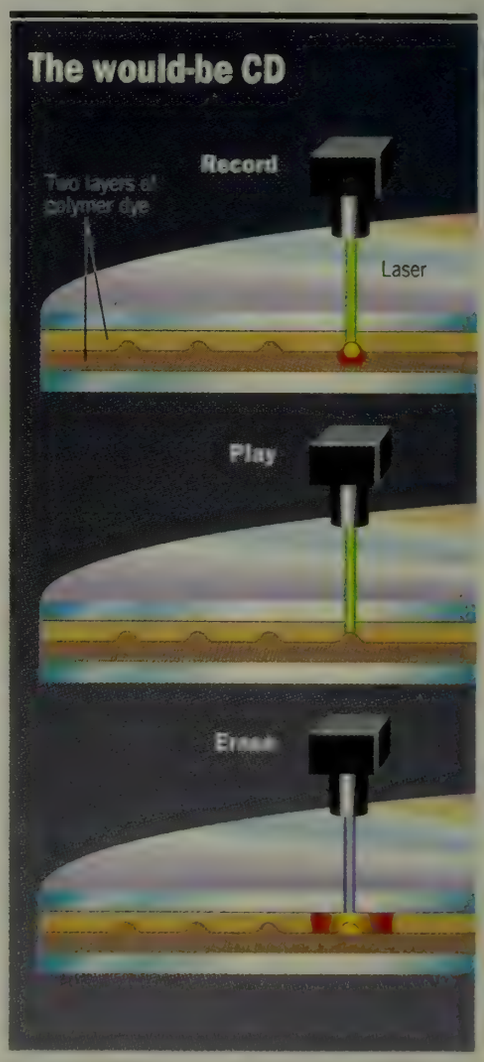
THE FIRST BOSTON analyst was bowled over when he gushed to *PC Week* in April 1988 about a new product. "This could remake the audio market, the video market—all consumer electronics—as well as the computer mass-storage market."

It didn't happen. The compact disk player/recorder developed by Tandy Corp. for music listeners and computer users has yet to come to market. Too bad. It would have been quite a product. Other computers already had optical disks as a storage medium, but Tandy's compact disk was stunning for three reasons: It was recordable, it was compatible with audio compact disk players, and it was going to be cheap. Tandy Corp. declared that within 18 to 24 months the company would be selling the THOR (Tandy High-intensity Optical Recorder) for less than $500.

Today, 42 months later, Tandy has no THOR-CD on the store shelves, and won't "for a couple of years," according to a Tandy spokesman. What happened? It's a case study in what can go wrong with a promising technology: First legal and then engineering snags have slowed delivery of the product. And when it finally hits the market, the market may well have passed it by.

Computer industry pundit Stewart Alsop made the term "vaporware" famous as a way of describing computer products that exist chiefly in the minds of the people who announce them. As a piece of vaporware, Tandy's THOR is in good company, says Alsop, with, among others, the Macintosh version of Lotus 1-2-3; Ovation, an integrated software program that faded into oblivion; and Kodak's magneto-optical disk drive.

What's holding up THOR? It was going to be a consumer audio product that would play back a purchased CD recording or record music onto blank CDs. The Tandy spokesman says plans for this application ran head-on into the legal battle between the recorded music industry and the hi-fi manufacturing industry over digital recording. If THOR had gone to market, it might have had to include an anticopying circuit to please Hollywood. That would have defeated much of its appeal. The digital copying battle is now before Congress.



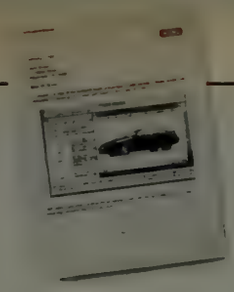
Tandy's THOR was going to record bits with a laser that heats up one layer of polymer, forming bumps; the same laser would also read back the data. A second laser, tuned to a different frequency, would erase. This nifty product is not yet available.

Tandy also talked about using THOR for computer data storage. But it probably never would have threatened the conventional magnetic disk as the preferred medium for storage of files that are constantly being updated. That's because THOR can't stand up to millions of erasings and rerecordings.

The seemingly ingenious THOR system relies on two layers of "dye polymers" that receive zaps from a laser *(see diagram)*. One laser beam hits the lower layer and heats it up enough to make a tiny warped spot and read that little bump, just as a conventional audio CD player reads a CD; a second laser can erase the bump by hitting the top layer. The trouble, according to James Porter of the Mountain View, Calif. market researcher Disk/Trend, is that dye polymer disks can withstand only 10,000 erases and rewrites. That's fine for audio recording, says Porter, but useful in computers only for backing up data, not constantly reading and writing it.

Manufacturing the new disks proved to be not as easy as Tandy would have liked. "Making dye polymers work in the lab under ideal conditions with physicists watching over it is far different than producing [a disk] for the average consumer," says Michael Grubbs, a Tandy marketing manager.

While Tandy struggles with Hollywood and polymers, another technology threatens its place in the market: magneto-optical recording (FORBES, *Apr. 29*). In this system, a laser heats up a spot on a disk, permitting a magnetic head to flip the magnetic polarity of that spot. Magneto-optical drives now cost over $4,000 and are used in the computer industry for archiving graphics. The threat to THOR may come from Sony Corp., which announced in May a much cheaper version of magneto-optical technology. Its disks will be rewritable millions of times, the players are expected to cost between $400 and $500, and they will be available by the end of next year. Unless, of course, the technology vaporizes.



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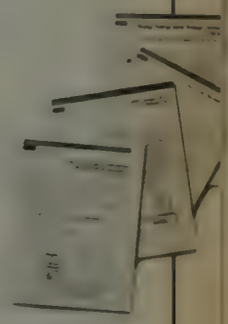

In the 1980s, the office fell in love with technology.

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WANG **OFFICES THAT WORK**

Navstar satellites originally were put up for navigational purposes, but Charles Trimble hopes they will soon help trucking companies know where their trucks are.

Down to earth

By Kathleen K. Wiegner

"MY CHRONOMETERS and barometer, which before rode so safely, were now in constant danger. The trip of a mule might destroy the whole. . . . The viameter for measuring distances, heretofore attached to the wheel at the instrument wagon, was now attached to the wheel of one of the small mounted howitzers."

Surveyors have come a long way since Lieutenant William Emory recorded those observations of surveying work from Fort Leavenworth, Kans. to San Diego, Calif. in 1848. Their latest gimmick: satellites.

Small hand-held satellite-guided receivers for determining precise geographical locations hit the headlines during the Persian Gulf war. Now that same technology is being applied to track freight trucks, determine the exact height of mountains and survey construction projects.

"Traditional surveying requires a line of sight," says Charles Trimble, chief executive of Sunnyvale, Calif.-based Trimble Navigation Ltd., which makes high-tech surveying gear. "But with this system, the line of sight is a satellite." Trimble's company got a $36 million order for its 3-pound receivers from the Department of Defense as the Gulf war broke out. But the big money is in civilian applications. "Surveying is a $600 million market," says Trimble. "We are a technological replacement for Japanese and German optics."

Perhaps it is natural that Trimble is displacing optics with the mathematics of radio signals. Burdened since birth with extremely bad eyesight (he can't drive, for example), Trimble got through the California Institute of Technology, where he earned undergraduate and master's degrees in engineering, with a small pair of binoculars that helped him see the board. Bad eyesight is a handicap in most professions, but not for someone who works with abstractions—mathematical greats Poincaré and Euler being good examples.

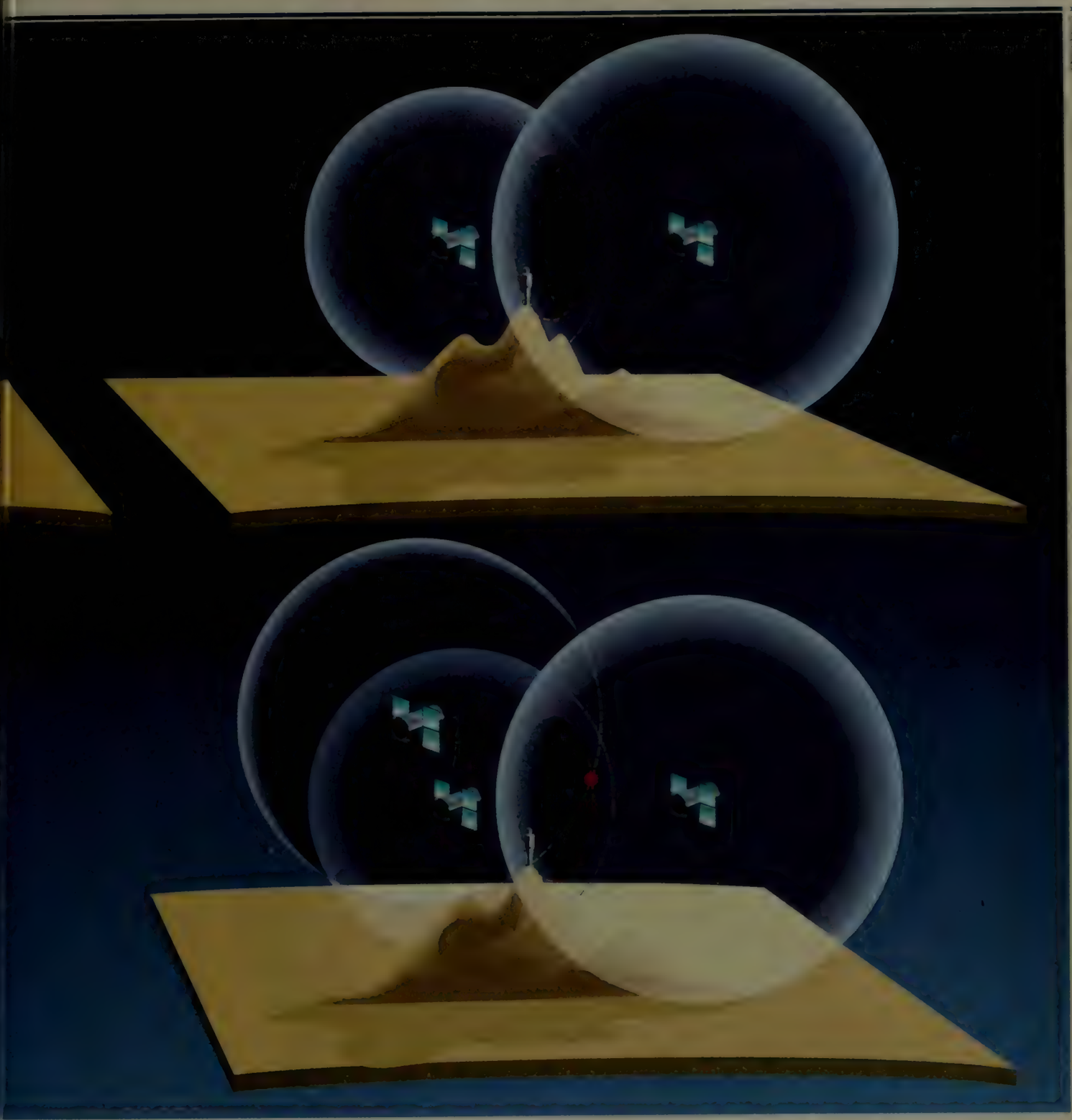
Both soldier and surveyor are using a cluster of 16 satellites, known as the Navstar Global Positioning System, that orbit twice a day above the earth at an altitude of 11,000 miles. The system works by simple geometric formulas, just as Lieutenant Emory's did. But where Emory used a viameter as his measuring tape, a satellite surveyor uses a radio beam. By taking the signals from three (or in some cases four) satellites, a surveyor can calculate latitude, longitude and altitude *(see diagram)*. Of course, those outer-space measurements have to be extraordinarily precise to be of any use in tracking short distances on the ground. Precise they are. The satellite broadcasts both its time (determined by $50,000 atomic clocks accurate to a second every 32,500 years) and its position. So long as the surveyor has at least one of his receivers at a landmark, such as a telephone pole, he can locate other spots with a precision of 1 centimeter per kilometer.

Typically, however, a surveyor sets up radio receivers on tripods at two known points. Then he walks around the site with a portable 6-pound receiver, with a small keyboard attached. The portable collects satellite signals as often as once a second. The keyboard can be used to enter information about terrain, such as telephone poles and boulders. Back in the office, the surveyor dumps the information gathered into a personal computer, which generates a map.

Surveying was not foremost in Trimble's mind when he quit a research job at Hewlett-Packard in

Satellite geometry

The global positioning system uses signals from at least three satellites to pinpoint a location. The time lapse for a signal from one satellite to reach the observer tells him exactly how far away he is, limiting his location to a point on the surface of a sphere. Distance measurements from two satellites narrow the possibilities to points on a circle. A third measurement leaves only two points and one of those two is off in outer space and impossible anyway. This schematic is not to scale; the Earth is in fact smaller than any of the distance spheres. A fourth satellite would be useful to correct measurement errors.



1978, taking two Hewlett engineers with him to start Trimble Navigation. Trimble paid his former employer $130,000 for rights to electronic gadgets related to loran and satellite navigation. Since the government had put only four satellites in orbit, not enough to provide the multiple signals needed to do really accurate land surveys, Trimble focused on sea navigation. At sea, three satellite fixes are enough to provide useful information. That's because altitude is not a variable and a 20-yard error is generally not fatal.

By 1986, though, electronics and satellites had come far enough to make land measurements accurate, and Trimble started selling equipment to surveyors. He was on the right track—military sales were only 20% of Trimble's $63 million revenues last year. "Surveying has funded the entire growth of the company," says Trimble. The analysts are saying that Trimble Navigation, which went public last year, could double its sales this year.

Trimble's next target is vehicle tracking. By 1993, 24 Navstars will be in orbit, enough to provide three-dimensional tracking 24 hours a day. The Japanese, Trimble says, have a head start in cornering the market for consumer applications like navigation systems in your car. Trimble has his eye, rather, on courier services, city buses and freight carriers. So far his business vision is pretty sound. ■

The U.S. advanced-composites industry is shrinking. And guess what? The Japanese are moving in.

Toray 1, Amoco 0

As RECENTLY as two years ago, the advanced-composites business was one of the hottest growth industries around. These composites are fiber-reinforced plastics—such as graphite-resin—that are lighter and stronger than aluminum and help U.S. military airplanes evade Soviet radar. Cold war or no, this technology was supposed to be on the verge of a boom. Defense spending on research and development was trickling down to all kinds of commercial uses: golf clubs to cars, commercial planes to bridges.

During the 1980s the market for these advanced materials grew rapidly, to $1 billion in sales, and the pundits said it was on its way to $20 billion by the end of the century. Companies like Amoco, BASF and Hercules spent hundreds of millions of dollars building U.S. factories to produce polyacrylonitrile, the chemical precursor of carbon fiber.

Then the Soviet Union collapsed; reality interrupted dreams of a huge civilian market. Now, with the cancelation of the A-12 fighter and big cuts in other composite-hungry defense projects like the V-22 Osprey tilt-rotor aircraft, as well as the threat of cuts in planned spending for the B-2 stealth bomber, the suppliers of graphite composite and other advanced materials are in shambles. Faced with reduced demand from the military, these producers are flooding the recreational market. In just two years the price for a pound of standard-grade carbon fiber used to make sporting goods has dropped from $15 to around $10.

When the going gets tough, the timid drop out. Courtaulds, the British producer, sold one carbon fiber plant and will close its Coventry factory by year-end. Hercules' fiber-resin composites operation is running at less than half of capacity, and Amoco just shut its carbon fiber plant in Greenville, S.C. for 2½ months. "Prices today don't support reinvestment in the business," says Linn Mathews, vice president for Amoco Performance Products, which makes carbon fiber and advanced composites.

Yet the dreams of a civilian market, while too early, are not entirely vain. Composites are slowly but surely beginning to be used in the commercial aviation business. The 400-passenger Boeing 777 twin-engine jet will get 10% of its weight from composites—three times as much as any previous Boeing craft. Similarly, the GE jet engine that beat Rolls-Royce on a British Airways Boeing 777 order (FORBES, *Sept. 16*) will use fan blades made of graphite epoxy composite.

No question: Advanced composites can outperform their metal-alloy counterparts in many jobs. The Boeing 777 will use composites for floor beams and for tailfins. This is the first time Boeing has designed into a commercial plane composites for airframe structures, which are critical to safe flight. "The reason we do it is performance gains," says John Quinlivan, a design manager on the 777.

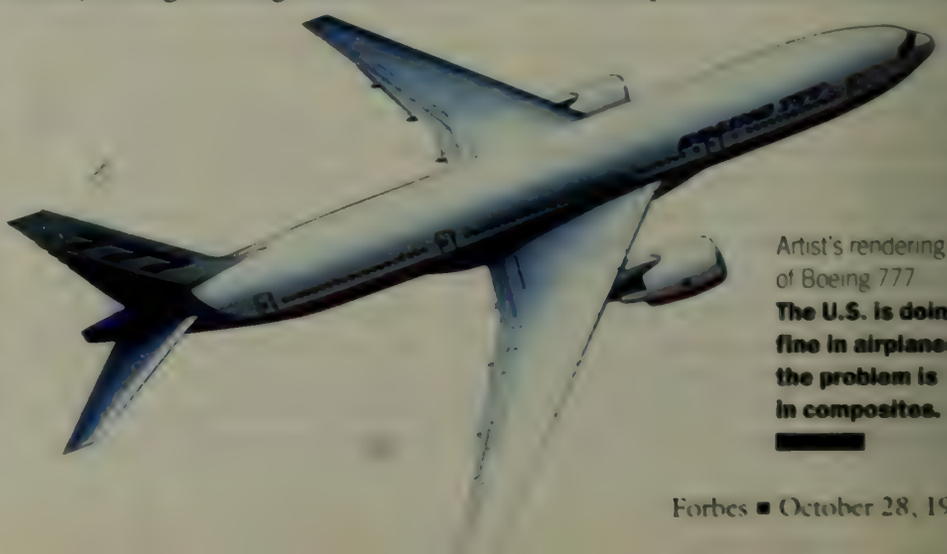
With the Americans and British trimming back, who will produce the stuff? The Japanese, of course.

The plant Courtaulds sold was bought by Mitsubishi Rayon. The composites for the Boeing 777 will be made by Toray Industries, a $6.5 billion (fiscal 1991 sales) Japanese textile fiber producer that has become the world's leading producer of carbon fiber. Toray has continually expanded its presence outside Japan through acquisitions and joint ventures with local firms. Through its joint venture with French chemical producer Elf Aquitaine, Toray supplies the European Airbus consortium, which uses composites in the vertical tail fins on the A-320 aircraft.

What's Toray's secret? Japanese patience, in part. Technological leadership, too. For example, Toray has demonstrated a carbon fiber with a tensile strength (resistance to being pulled apart) of 1 million pounds per square inch, or 10 times that of high-strength carbon steel.

Toray's competitors, faced with overcapacity, are desperately searching for new ways to use their material. BASF, for example, is testing its composites in a 260-foot bridge at its headquarters in Ludwigshafen, Germany. Of the 16 support beams, 4 are reinforced with composite tendons, the rest from steel. "The Japanese have taken a very enthusiastic look at this," says Richard Dauksys, director of commercial development for BASF Structural Materials.

The Japanese are patient enough to sit through several lean years in order to have the fat years to themselves when the competition has died off. They did it in TVs and memory chips, and there's no reason they can't pull it off in composite fibers. —G.S.



Artist's rendering of Boeing 777
The U.S. is doing fine in airplanes; the problem is in composites.

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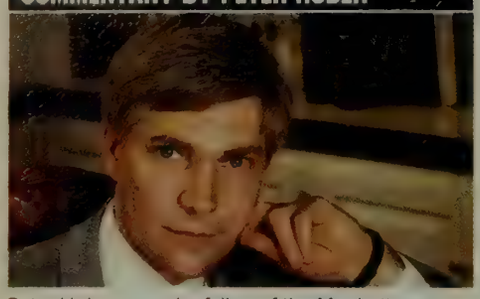
Dan Quayle, the lawyers and the AIDS babies

COMMENTARY BY PETER HUBER



Peter Huber, a senior fellow of the Manhattan Institute, is the author of the just published *Galileo's Revenge: Junk Science in the Courtroom* (Basic Books).

"A CONTROVERSIAL trial of an AIDS vaccine for pregnant women is in limbo because vaccine makers are afraid of being sued if any of the babies born to women in the trial suffer from birth defects." This report from a recent issue of the *New Scientist*.

The circumstances are as scientifically intriguing as they are tragic. About one in four infants born to HIV-positive women will be infected at birth. Vaccination with a protein extracted from the AIDS virus may boost maternal antibodies at the critical stage in pregnancy. Mothers share their antibodies (as well as their viruses) with their unborn children, so infant infection may be reduced. A one-in-four risk is in just the right range to reveal improvements if they occur; the risk is also far easier to calibrate and track than the risk faced by, say, your average adult resident of Needle Park.

But to produce useful data the vaccine trial will have to involve a couple of hundred pregnant women. Even if those women were all as pink and healthy as models in *Vogue*, there'd still be a handful of birth defects among their newborns. Among children of women plucked from crack houses and AIDS hospitals, birth defects are going to be considerably more frequent. There's no reason at all to believe that a vaccine would add to that risk. But the U.S. record of litigation against vaccine manufacturers is already packed with baseless claims and spurious findings of causality. Insurers learned to steer clear of this business in 1976, at the time of the swine flu crisis. No sane insurer is going to mess with vaccines for HIV-positive pregnant women today.

At the opposite end of the misery spectrum we find two protagonists who are almost as unlikely to get AIDS as they are to get pregnant. The president of the American Bar Association is trying to pick a fight with the Vice President of the United States as to just how much tort liability really costs Americans every year. (This little spat is of some personal interest, as it apparently derives from a number noted briefly in my 1988 book *Liability*.) Total up all the liability insurance costs paid in this country by car drivers, homeowners, employers, obstetricians, asbestos removers and everyone else, and what do you get? In excess of $80 billion, as Dan Quayle stated in his gutsy speech to the ABA in August? Or a mere $29 billion to $36 billion a year—as claimed by ABA President Talbot S. D'Alemberte?

I suppose that like many lawyers, D'Alemberte just isn't very good at doing sanity checks on his numbers. If he were, he would have taken one look at the figures he quotes, mentally divided them by 100 million American households, and arrived at $300 a family. A glance at his own car and homeowner's liability policies would then quickly have persuaded him that something wasn't right. He chose instead to rely on an obscure 1990 law review piece that extols the virtues of health care in Cuba, quotes Karl Marx with grave respect, and, oh yes, heatedly attacks my book. The Cuba-and-Marx piece cites numbers from a Rand study of tort expenditures in 1985—which were of course covered by insurance premiums paid around 1981. A more recent estimate by Tillinghast, a leading insurance consulting firm, puts gross liability expenditures at about $117 billion.

Tillinghast, I'm inclined to think, knows more about this sort of thing than either D'Alemberte or Fidel Castro. But somehow I just can't muster my usual sense of outrage anymore, even at the sight of the organized bar defending its feeding trough as it always does, with a minimum of reflection and a maximum of bluster and prevarication. Neither Tillinghast nor Rand knows how to put a dollar figure on small planes not built, on morning sickness drugs not sold, on asbestos substitutes never brought to market or on AIDS vaccines not tried. Over a thousand American babies are born every year infected with AIDS. The thought that the few people who might—just might—have something useful to do about that are paralyzed by shufflers of legal paper is just too sad to think about.

So I turn to the *Wall Street Journal* and what do I read? Liability has become a major headache for bungee jumpers—the people who throw themselves off bridges and towers attached to giant rubber bands. Insurance costs are adding up to $100 to the price of a jump; one potential supplier of bungees has forgone half a million dollars in business, in the hope of steering well clear of the lawyers. It's a pity; I'm at little risk of AIDS, but bungee jumping I'd love to try.

I suspect many Americans would be happy to see more lawyers try this sport, and happier still if they tried it with bungees cut a trifle too long. This is more or less what the Vice President dared to say in front of the lawyers' convention in August. Meanwhile, the AIDS-vaccine researchers are heading to Congress to plead for a modest shot of immunity for themselves. ■

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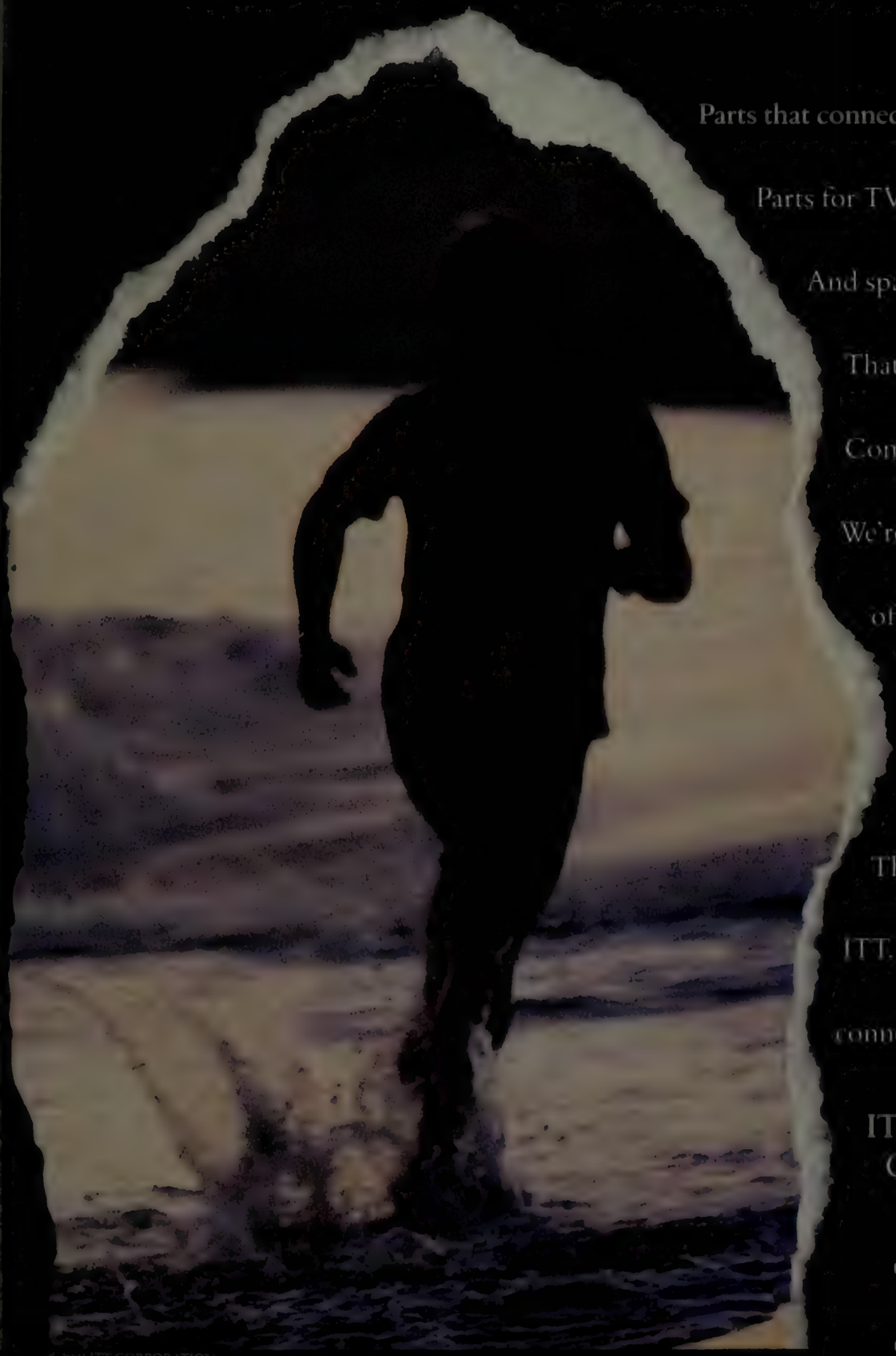

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If you're really interested in classic cars, book your rooms in Monterey for next August.

They don't build 'em like they used to

By Jerry Flint

THE JAPANESE may own the fabulous Pebble Beach golf club near Monterey, Calif., but for a few days every summer the action is strictly American and European—cars, that is. During August more than 50,000 serious car buffs descend upon Pebble Beach to show off, admire, race, buy, sell and talk old cars. One visitor paints an image of the scene as he describes a near collision on one of Monterey's back roads: "I'm in the middle of it in my Corvette, with four Ferraris in front of me. I'm going to be in the most expensive accident in history. I don't mind dying, but I don't want to hurt their cars."

Says another regular visitor, Robert Dorn, chief engineer at Cadillac and the man most reponsible for the new Cadillac Seville: "This renews your faith in what you're doing, that people love what you're doing, that you are creating something that lasts."

The affair stretches over three days. Saturday and Sunday there are the historic car races at Laguna Seca Raceway in the day, followed by classic car auctions at night. On Sunday the main event, the Concours d'Elegance, takes place (Aug. 23 will be the date next year). Now in its 42nd year, the Concours is the world's best-known beauty contest for classic cars, which are exhibited by invitation only. Last year clothing designer Ralph Lauren won best of show at the Concours with his 1938 Bugatti.

For the classic car races at Laguna Seca, a 20-minute drive from Pebble Beach, some of the legends of auto racing, people like Phil Hill and Stirling Moss, generally show up. In August one of the greatest racers of all, Juan Manuel Fangio, 80, made the journey from Argentina and circled the track in his old Mercedes W196 racer, which took nine Grand Prix races in 1954 and 1955 and carried him to world driving championships both years.

The races are run with the cars' preservation foremost in mind. "My thought was to encourage people to see these cars, not just in museums, but to see them run," says Steven Earle, who started the races here 18 years ago. But not to see them collide. Cause an accident and Earle doesn't invite you back for a while.

The high point of the weekend is the Concours on Sunday. Parked on the manicured grass at Pebble Beach are the grand marques of the departed—Peerless, Packard and Pierce-Arrow with its archer on the hood; Ruxton and Hudson, Delahaye and Delage, Bugatti and Cisitalia; the boat-tailed Auburn and Cord and Duesenberg; Hispano-Suiza and Isotta. And there are early versions of nameplates still very much alive—Mercedes, Rolls-Royce and Jaguar, Cadillac, Chrysler, Ferrari and Alfa Romeo.

Under many layers of paint and energetically buffed wax, the 150 invited cars on display are in better condition than they were in their original showrooms. The chrome gleams, the engines gleam, even the undersides gleam. As one owner puts it: "A $33,000 paint job and I'm going to drive it on the street?"

The anxious owners spend the morning around their cars, wiping away a smudge or a bug, making sure they're able to make the required up-the-ramp run to the winner's stand if they're lucky enough to be chosen.

"This is the most flamboyant Bentley ever built," boasts Gary Wales, a retired stockbroker from Woodland Hills, Calif., describing his special-bodied 1947 Bentley Cabriolet. She's 7 feet across at the fenders, with its single sideways seat in the rear so

Photographs by Dennis Adler

Prize time at the Concours at Pebble Beach
1,650 frogs made the ultimate sacrifice.

A copper-covered 1921 Rolls
It's a beauty contest for cars, and their golden years are spent in the garage or the workshop, not on the road.

Jeeves can make drinks and pass them forward. "I spent ten years doing this car," says Wales, noting that he covered the seats in frogskin, about 1,650 frogs' worth. His wife, Marilyn, sports matching frogskin shoes, bag and belt. Anything to catch the judges' eyes. Still, Wales' Bentley placed second.

Best of show in 1991—a great surprise—went to an American car, a dashing 1932 Chrysler LeBaron that was built for Walter Chrysler himself.

"We had a French judge this year," quipped one of Gary Wales' good friends. "Maybe he didn't like the frogskin."

The weekend auctions, run by Rick Cole and Christie's, weren't all that successful for the sellers this year. Prices were down, but that's just fine for some at Monterey. Many collectors have been driven from the field by sharply escalating prices. They'd like to see prices drop a lot more so that they can get back in.

If you think your car may be good enough for the Concours, phone Lorin Tryon, co-chairman of the event (415-736-3444). The emphasis is on pre-World War II cars and special-bodied cars of the postwar era. Your 1957 Thunderbird may be beautiful, but it probably isn't for Pebble Beach. There's no entry fee for the cars, but admission to the Concours is $30.

To run at the Monterey Historic Automobile Races at Laguna Seca Raceway, write to General Racing Ltd., P.O. Box 30628, Santa Barbara, Calif. 93130. Include a photo of your car and tell something of its history. Most of the race cars are pre-1959, but some specific classes, such as Formula 1, run up to 1983.

Stuff in the old girl yet. A 1929 Lagonda races at Laguna Seca
But bump into her and you're not invited back.

It's best to get hotel reservations early—months early. Among the better choices around Monterey and Carmel:

The Lodge at Pebble Beach (408-624-3811); the Inn at Spanish Bay in Pebble Beach (408-647-7500); the Doubletree Hotel near Fishermen's Wharf in Monterey (408-649-4511); the Carmel Valley Ranch Resort (408-625-9500); Quail Lodge in Carmel (408-624-1581); the Monterey Marriott Hotel (408-649-4234); Monterey Plaza Hotel (408-646-1700); the La Playa Hotel (408-624-6476) in Carmel; and the Highlands Inn just outside of Carmel (408-624-3801). For more information, the Monterey Peninsula Chamber of Commerce and Vistors & Convention Bureau can be reached at 408-649-1770.

Have you misplaced those souvenir glass items you brought back from Venice in the 1950s and 1960s? After reading this, you'll turn the house inside out looking for them.

Glass act

By Christie Brown

Photographs by Bill Nation/Sygma

Herbert Solow with glass ducks made by Seguso Vetri D'Arte
Fewer than 10 of Solow's 180 pieces are signed.

LIKE MANY an American tourist, Herbert Solow, a Los Angeles movie producer and writer, bought a piece of Venetian glass when he first visited Venice in 1969. It was a souvenir of a day's visit to the famed glass factories on the nearby island of Murano. "The boat wouldn't leave until everyone had bought enough," remembers Solow, who paid about $5 for a colorful glass ashtray which he took back home to Malibu and then promptly misplaced.

He wishes he had it now. Solow, 60, has recently developed a passion for collecting Venetian glass made between 1920 and 1980. He's one of few American collectors in the field, but Europeans have long been in love with Venetian glass. And over the last five years prices have gone ballistic at auctions in Milan, Geneva, London and Amsterdam. Last year a colored, striped Venetian vase—akin to a tartan plaid—that probably cost about $70 when it was made around 1960 by the Venini glass company fetched a record $125,000 at a Christie's auction in Geneva.

Venetian glassmakers have been plying their trade since the 10th century, blowing elaborate works intricately patterned with swirling colors. Hundreds of factories (which moved from Venice to Murano in the 13th century because of the danger that Venice might catch on fire) turned out the glassware used by all of Europe's royalty. But, by the 17th century, heavy Bohemian cut crystal had become the last word in luxury. It was later supplanted by vogues for crystal made by Scandinavian, French and English artisans.

Venetian glassmaking languished until 1924. In that year, a lawyer named Paolo Venini opened a glass workshop that rattled the old order. Venini shunned the ornate look of the traditional glassblowers and designed sleek pieces. These combined traditional glassblowing techniques like *millefiori,* which fuses together colored glass rods, with designs by contemporary artists and architects. New techniques were also developed: bubbles that created an underwater effect, patchwork, and unusual surface treatments, like corroding glass to give it an antique look.

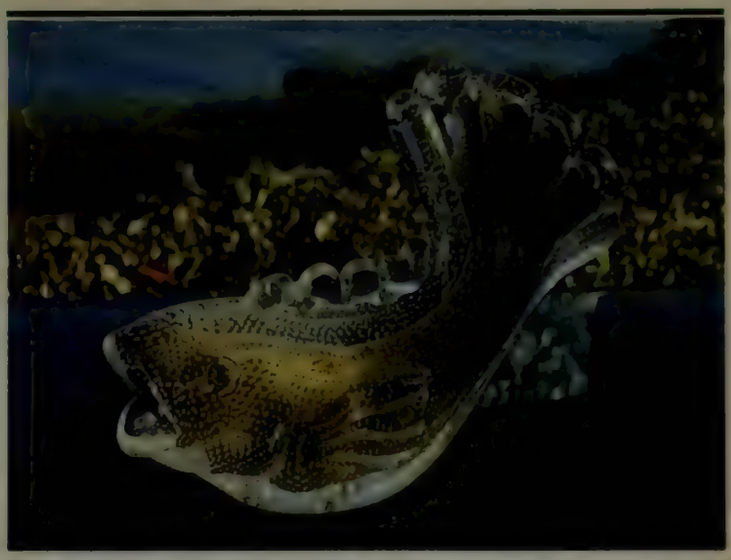
The art world mostly yawned, but the tourists began buying the objects as souvenirs. Hundreds of Murano manufacturers shared in the revival. But only a handful of pieces by the leading firms have won the attention of serious collectors. Among the most desirable were works by Venini, Barovier & Toso, Seguso Vetri D'Arte, Salviati & Co., Cenedese and Barbini Glassworks.

Today some of those pieces can be worth six figures. But you have to know what you're looking for, and that's easier said than done. Many pieces were never signed, and popular designs by the leading manufacturers were widely copied.

Take the series of "handkerchief" designs created by Venini in the 1950s. Resembling a falling handkerchief frozen in motion, the designs earned Venini huge praise and are highly prized by collectors. (Part of the series is also in the permanent collection of New York's Museum of Modern Art.) But the design was also widely imitated by lesser glassmakers; the copies are of no interest to serious collectors.

"For every good postwar piece of

Barovier & Toso 1942 iridescent bowl
For every good piece, 300 bad ones.



Archimede Seguso goldfish made in 1937
Bought for $100, worth $4,500.

Venetian glass, there are 300 bad ones," says Dan Klein, head of Christie's decorative art department in Europe. And the best glassmakers, including Venini, are copying themselves. "Venini vases from the Fifties that would fetch $100,000 at auction are being copied and sold by Venini now for about $3,000," warns Christie's Klein.

Herbert Solow became interested in Venetian glass when he spotted a vase selling cheap at a local auction 18 months ago. He won it for $35—a steal, he thought, knowing the big prices paid for much vintage glass. But his treasure turned out to be one of the cheap copies.

Where had he gone wrong? After reading up and visiting several museum collections, Solow realized that his vase lacked any real artistry or technique. But that mistake only whetted Solow's appetite for finding the real thing.

Realizing that he was going to be spending more than pocket money, he formed a collecting partnership with a friend, Mendocino attorney Allan Cone. While Cone watches the bottom line, Solow collects.

In the past year the partners have spent close to $50,000 each to buy a total of 180 pieces of Venetian glass, which bedeck both men's houses. There are vases, bowls, ashtrays and sculptures, by such craftsmen as Venini, Seguso, Barovier and Cenedese. Fewer than 10 pieces in Solow and Cone's collection are signed or marked, and Solow has been able to identify less than one-third of the collection through books. He has high hopes they are all by the great designers, but he hasn't had them authenticated yet.

Excited by the thrill of discovery, Solow stays away from high-priced galleries in New York and the big auction houses. Instead, he has found all his glass by contacting private sellers or small town dealers listed in trade papers like the *Antique Trader Weekly*, published in Dubuque, Iowa. The most that Solow and Cone have paid for any single piece of Venetian glass was $1,200, for an iridescent blue bowl shaped like a clamshell, made by Barovier in 1942; they bought it from a dealer in Virginia.

Christie's Geneva

Venini 1960 vase
Sold for record $125,000.

Solow asks sellers to send him pictures of their glass first. If interested, he then accepts them conditionally—pending his close examination for any markings or other clues to their origin and maker.

Books are Solow's best teacher. He has a standing order with the Book Exchange, an arts book store in Corning, N.Y., to send him any new editions on Venetian glass. (A knowledge of Italian helps, as few sources are in English.)

Scouring the country by phone and letter, Solow has stumbled upon some great bargains. Recently one dealer, Antiques Coast to Coast of Des Moines, Iowa, sent Solow two unsigned glass goldfish, which he bought for $200, believing they were by Barovier. But Solow found out later, from a book, that the sculptures were well-documented pieces made by Archimede Seguso in 1937. Christie's estimates that they are worth between $3,500 and $4,500 each. "I love the chase," says Solow.

The best public collection of Venetian glass in this country can be seen at the Corning Museum of Glass in Corning, N.Y. If you have pieces that you want to sell or know more about, send a photograph to the Twentieth-Century Decorative Arts Department of Christie's East, 219 East 67th St., New York, N.Y. 10021, or the Twentieth-Century Decorative Arts Department of Sotheby's, 1334 York Ave., New York, N.Y. 10021.

Being a little "different" became a career advantage for Jennifer Runyeon. At 31, she's chief executive of a $50 million company.

The nonconformist

By Gail Buchalter

HER FAMILY moved from Brazil to Greenwich, Conn. when Jennifer Runyeon was 12. She felt a stranger in a strange land. "My clothes were different, I didn't watch television." She just couldn't relate to American adolescents and their, to her, strange rites and rituals. Either she would have to change or dare to be different. Jennifer decided to be different and the heck with whether she was out of step with her peers. "At an early age I found being different was a challenge, but I overcame it and learned from it," she says.

Still the loner, she graduated with a business degree from Southern Methodist University in 1982. She tinkered around in the commodities business working for Nashville-based regional broker J.C. Bradford & Co. and in 1986, at age 26, opened her own commodities trading firm, Contemporary Financial Futures Corp., in Dallas.

But still ambitious and restless, she saw a classified ad for a bankrupt windshield wiper company. Its product: a three-bladed wiper that kept windshields cleaner than traditional one-bladed wipers. A bankrupt outfit? And what did she know about wipers? These drawbacks didn't faze Runyeon. She was used to being out of step. "Many companies can be bankrupt and still have a great product," she says. Investigating, she found that the wipers were patented and made of the same material as high-performance radial tires, so they lasted longer than conventional wipers.

Checking further, she found the company had less than $500,000 in sales and had simply run out of capital. The wipers were just put on retail shelves to languish—unknown and unpromoted.

So Runyeon borrowed $500,000 from a stockbroker friend—who in return got a 50% equity interest in the venture—and bought Tripledge Corp. in 1988. Runyeon renamed it Lifetime Automotive Products. "I had a lot going against me. I was young, a woman, and I had a new product," she says. "I was thinking completely outside the box."

Doug Milner

Jennifer Runyeon of Lifetime Products
Thinking outside the box.

Tight on working capital, Runyeon needed profits fast. A more conventional business person would have gone along with the accepted wisdom that automotive products sell heavily on price. Runyeon raised her price to $19.95 from $14.95, more than three times the average wiper. But as a sweetener, she improved the quality and offered a lifetime guarantee—something other wipers didn't have.

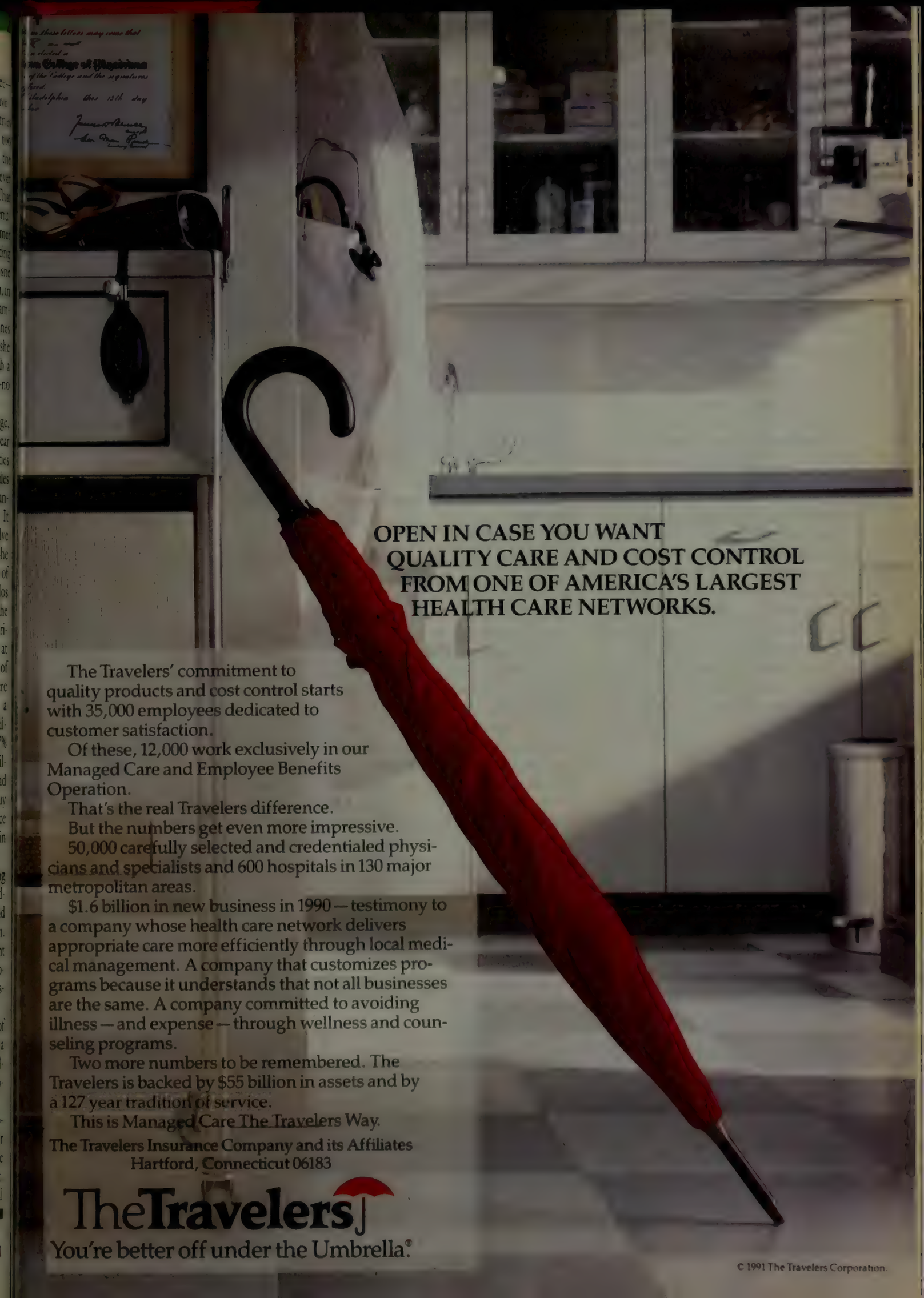
Paying marketing representatives to get into retail outlets proved too costly. So Runyeon went right to the consumer. The company had never had an ad budget before. That changed, too, with Runyeon spending some $500,000 for consumer promotion. But instead of limiting the ads to automotive magazines, she put her message on cable television, in upmarket catalogs such as Hammacher Schlemmer and in magazines like *Parade*. When she could do it, she negotiated to pay for the ads with a portion of sales after the ad ran—no upfront cash needed.

In 1989, her first full year in charge, sales topped $3 million. (That year she also sold her Dallas commodities firm to her partners.) By 1990 sales had leaped to $20 million and Runyeon had a story to tell investors. It was time to go public and solve the capital shortage problem. She negotiated a friendly takeover of Lifetime Automotive by Trilos Corp., a company traded on the American Stock Exchange. Trilos' shares had been trading at around 50 cents, but the shares of the new combined company were recently trading at 11⅝, for a market capitalization of $47 million. That makes Runyeon's 17% stake worth more than $8 million. The broker friend who had lent Runyeon the money to buy the company in the first place walked away with $6.5 million in notes.

The money from the offering will help grease Lifetime's products' entry into retail outlets beyond the 20,000 that already carry them. So far she's given the exclusive right to sell her wipers and other automotive accessories to a Boston-based distributor called Direct to Retail.

What's the next goal? By the end of this year Runyeon thinks she has a shot at making hers the biggest-selling wipers in the $80 billion automotive aftermarket.

Would this success story have happened had the teenaged Jennifer Runyeon caved in and decided to be like the other girls? We doubt it. Entrepreneurs are rarely conventional people.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The Geneen machine

HAROLD GENEEN continues to redefine "working retirement." The master conglomerator retired in 1977 after building ITT by buying more than 350 companies. These days, from his midtown Manhattan offices, Geneen is overseeing an initial public offering for Finlay Enterprises, Inc., the highly leveraged jewelry retailer of which he is chairman.

Finlay, once part of publicly traded Seligman & Latz, runs 667 jewelry outlets inside Lord & Taylor and other department stores. With the Jacob Rothschild family, Geneen bought Seligman & Latz in 1985. In 1988 he joined a management group to buy out the Finlay division for $175 million, most of it borrowed.

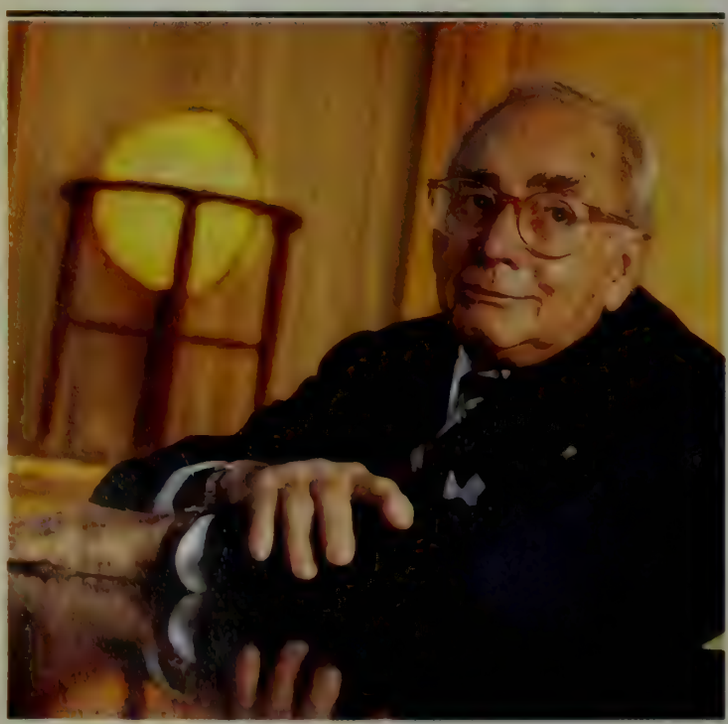
Last year, operating income—$26 million on $369 million in sales—fell more than $1 million short of covering Finlay's interest costs. Fortunately, the stock market has been strong, accommodating Geneen's decision to re-equitize. Of the 6 million Finlay shares being offered, the company is selling just over 5 million. At an estimated $16 to $18 a share, that will raise more than $80 million and cut long-term debt to around $90 million. Short-term debt, though, will keep the overall debt-to-equity ratio at a high 4-to-1 after the offering.

Geneen himself will do nicely. Of the 1 million shares being sold by insiders, more than a quarter are his. Geneen should clear at least $4.4 million, valuing his nearly 650,000 remaining shares at more than $10 million. What's more, Geneen says he cashed out about $5 million in Seligman & Latz stock during the 1988 Finlay buyout. That gives him about a $20 million return on his original $1 million stake in Seligman & Latz.

But isn't his selling a warning sign to potential outside shareholders? "I happen to be 81 years old," scoffs Geneen. "At what point do you think I should hold until I sell something?"

While heading Finlay, Geneen is also negotiating to buy and streamline 14 East German machine tool makers. "At some time you have to retire—they probably take you off the field at some point," he says. "But not right now." —RANDALL LANE

Market mathematicians Myron Scholes and Fischer Black
"There are situations where people use the formula and they shouldn't."



Former ITT Chairman Harold Geneen **Finding gold in a jewelry outfit.**

Formula for success

REMEMBER the Black-Scholes model? That's the mathematical formula for pricing securities options. Misunderstood and improperly used by portfolio insurers, it was a factor in the market crash of October 1987.

The model's inventors have been honing their practical experience. Fischer Black is a partner at Goldman, Sachs, where he works on global asset allocation. In the derivatives trading group at Salomon Brothers, Myron Scholes is looking at ever wider applications of the formula.

According to Black, "There are situations where people use the formula and they shouldn't." That's Black Monday's lesson learned. And the formula's applications have grown universal. Scholes adds that they have "had fun" watching markets around the world experiment with their formula. "Maybe it's a teenager now," he muses. "It's still in the growth phase."

Auto racing executive William Stokkan **"We've started to expand beyond rural America."**

The Black-Scholes formula is influencing more markets than ever. Originally conceived to value options on dividend-paying stocks, the formula is now being used to find arbitrage opportunities throughout the fixed income markets. Amoco uses it in calculating the return on building and holding inventories of crude oil. Questions as to the size of stock options for executive compensation plans are also being addressed by the Black-Scholes model.

The chaps behind the formula hit upon it on an autumn afternoon in 1969 in Belmont, Mass. Black was then 31, an independent finance consultant with a Harvard Ph.D. in applied math. Scholes, at 28, was an assistant professor of finance at MIT. It took them four years and several rejections to get their formula published. Today every M.B.A. candidate is taught the formula.

Any joint projects between the two old friends in the works? "Not while we're at Goldman and Salomon, I suppose," laughs Black.

–MANJEET KRIPALANI

If it works in football . . .

. . . WHY NOT IN auto racing? As chairman of Championship Auto Racing Teams, William Stokkan hopes to turn Indianapolis-500-style racing into a huge, and profitable, professional sports business. He has a lot to work with—and work on. Auto racing is the world's second-biggest spectator sport (after horse racing). But only a handful of the 20-plus teams that race each year ever make a profit. This year's Indianapolis 500 drew record crowds, but the fewest qualifying hopefuls in recent history.

So Stokkan, 41, plans to create 24 auto racing franchises by 1994. Each team will share television and gate revenues, à la pro football. "Last year the champion New York Giants got $28 million, same as the [cellar-dwelling] New England Patriots," he says. "That breeds stability." Stokkan hopes to land a full-season network TV deal and to organize races in major TV markets like Houston, Miami and Atlanta. "We've started to expand beyond rural America," he says.

A former marketer at Playboy Enterprises, Stokkan says attendance at the 17 Indy-car races (including the Indy 500) rose 15% in 1990, to 2.6 million, while total estimated revenues hit $400 million, up $100 million from 1985. New sponsors, including Target Stores and Gillette, have signed on, and Stokkan hopes franchising will attract new owners. Gentlemen, start your engines.

–JOHN HARRIS

Leapfrogger

WHY WOULD the founder of a booming technology company jump ship to start a tiny software firm? "My profession is innovation and leapfrogging," says Efraim Arazi, the MIT-educated Israeli who founded Scitex Corp., Ltd. in 1968.

Scitex (1990 sales, $352 million) jolted printing and the graphic arts into the electronic age. Manufactured in Herzlia, near Tel Aviv, Scitex's computers turn color images into streams of digital data that can be manipulated on a computer screen, preparing them for printing.

Arazi, now 54, left Scitex in 1989 to leapfrog into desktop publishing. His San Bruno, Calif.-based Electronics For Imaging, Inc. (which goes by his own nickname, Efi) has developed software to help desktop publishers inject brighter, truer colors into whatever they publish. The market for color programs, figures Arazi, could eventually reach several billion dollars.

Efi also makes Fiery, a device that converts digital color copiers into four-color printers that can connect with remote computers, "read" images being copied and then print them out at high speed. Fiery is being offered as an optional add-on to Canon and Xerox digital color copiers. Efi has sold about 200 ($35,000 retail) in the first two months.

Efi was scheduled to go public in August 1990 with a $6.5 million stock offering, but Arazi says the Gulf war put the deal on hold. He adds that he has raised upwards of $20 million through licensing fees and other advances from clients, and will wait for a few quarters of sales before trying another stock offering. Meanwhile, the thrill lies in getting his new company off the ground. "For me, it's no fun to sit on top of a company [like Scitex] that repeatedly does good service, good product and evolves like a Digital Equipment Corp.," says Arazi. "I'm a test pilot. I love to go for change."

–REED ABELSON

Digital-imaging pioneer Efraim Arazi **"I'm a test pilot. I love to go for change."**

For you, investing isn't really about money. It's about that horse farm in Kentucky. Or four years at your alma mater for the twins. Or maybe a vintage P-51 Mustang fighter—and the time to restore it.

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THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

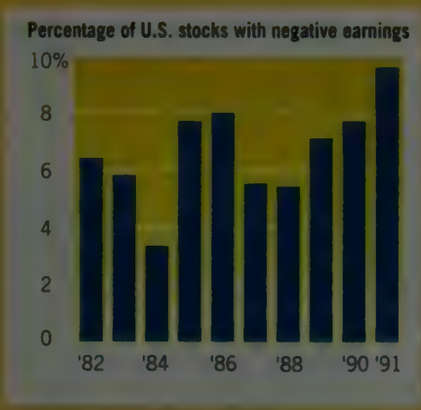
In today's richly priced market, investors have avidly bought stocks of industries that would benefit from an economic recovery. During the past two weeks railroads and trucking were among the best-performing industry factors, according to Barra.

To reflect a more complex economy, Barra does not divide stocks into traditional industry groups. Rather, it uses regression analysis to ascribe each stock's performance to one or more industry factors. That is, stock prices of companies with some or all of their revenues from railroading behaved as if investors were bullish on an underlying "railroadishness" factor.

Railroads will reap the rewards of the cost-cutting they undertook during the recession, says Donaldson, Lufkin & Jenrette analyst Joel Price. George Morris of Prescott, Ball & Turben agrees, and adds that railroads should benefit from increased hauling of Russia-bound grain.

Special focus

Just how expensive is the market? The classic P/E formula omits all companies with negative or negligible earnings. By that formula, the average stock costs 16 times earnings. But Barra says it's not hard to get the moneylosers back into the equation: Just add up the market valuations of all publicly traded stocks and compare the total with the sum of all earnings, whether positive or negative. Including the moneylosers, the Barra trailing 12-month P/E is 24. This refinement is particularly relevant now that a large fraction of stocks are in the red.



The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	-0.6%	25.5%	-2.3%
Sharpe/Barra Growth index[1]	-0.8	31.5	-2.9
Sharpe/Barra Value index[2]	-0.8	24.7	-2.5
Dow Jones industrials	-1.3	18.6	-2.3
S&P 500	-0.8	23.0	-3.1
NYSE	-0.5	23.6	-2.5
Nasdaq	-0.4	48.8	-1.5
Amex	1.2	21.1	-6.0
EAFE[3]	4.8	14.2	-16.6
CRB index[4,5]	-0.1	-9.7	-20.5
Gold[5]	2.6	-9.1	-28.9
Yen[5]	-2.8	-2.3	-20.4
Oil[5]	4.1	-38.7	-45.0

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
Global Natural Resources	9 1/4	37%	$0.26	Medical Imaging Centers	5 1/8	-47%	$0.80
Video Lottery Technology	28	35	0.55	Comm Psychiatric Centers	15 5/8	-43	2.01
DEA	53 1/2	33	1.75	KnowledgeWare	13	-40	1.63*
Oracle Systems	14 1/8	30	0.38	RasterOps	14 7/8	-36	1.47*
HBO & Company	7 5/8	27	0.09	Cascade International	5 1/4	-33	0.58

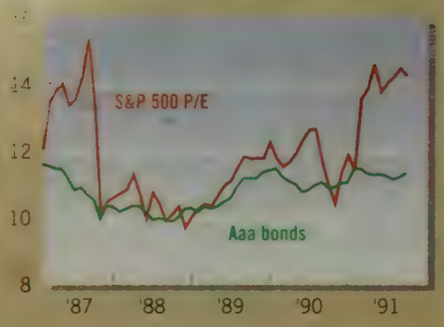
The best and worst performing industry factors[8,9]

Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Railroads, transit	6.6%	44.8%	Aluminum	-7.0%	0.7%
Precious metals	5.8	-17.5	Iron and steel	-5.7	11.8
Trucking, freight	5.2	26.1	Thrifts	-5.1	15.8
Media	3.7	11.9	Food retailing	-5.0	4.0
Electric utilities	3.1	22.7	Real estate	-4.6	17.5

Note: Data for period ending 10/3/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of a portfolio of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from Lynch, Jones & Ryan. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. *1992 estimate. Principal source: Barra, Inc., Berkeley, Calif.

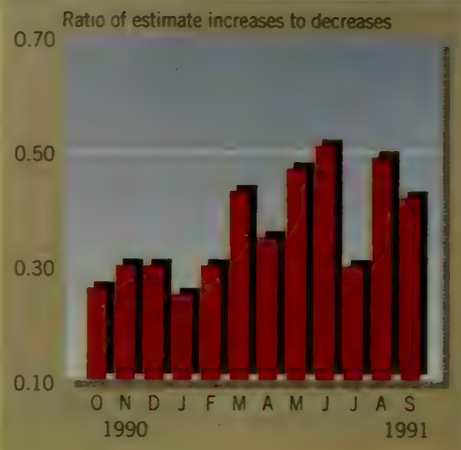
BY STEVEN RAMOS

S&P 500 P/E* vs. Aaa bonds†



*S&P 500 P/E is the recent price of the S&P 500 divided by estimated earnings over the next 12 months. †Projected price-to-coupon ratio for Moody's Aaa corporate bond index.

S&P 500 companies



Forecasting the S&P 500

Year	Estimated P/E	% change current vs. 3 months ago	Expected year-to-year EPS growth
1990	16.2	NA	+7%
1991	15.5	–4%	–5
1992	13.1	–2	29

1991 estimates for industry groups

Rising estimates	Falling estimates
furniture-apparel	airlines
containers	automobiles
auto parts	steel
housewares	electronics/semi-con
shoes	metals

Earnings estimates are often wide of the mark on individual companies, but their overall trend can signal when the market is moving into dangerous territory. That seems to be where the market is now. The graph on the top left shows the relationship between the estimated P/E on the S&P 500 and the projected price-to-coupon ratio for Moody's Aaa corporate bonds. In August the spread widened to 29%. That means equity holders are willing to pay 1.29 times as much as bondholders for each dollar of income, betting in essence that appreciation of the underlying equity will more than make up the difference. But that's a big gap. The last time the spread exceeded 30% was August 1987, just before the Oct. 19 crash. Moreover, analysts are expecting the S&P 500 to show a 5% decline in earnings in 1991, and the pace of estimate-slashing picked up again in September.

"We have been saying since April that investors should pull some of their chips off the table and not be so active in the equity markets," says Richard Pucci, a vice president of the Institutional Brokers Estimate Service.

Who's hot

Greatest increase in estimates over the past three months

Company/industry	1990 EPS	1991 estimate recent	1991 estimate 3-month change	P/E	3-month price change	Reason
Alex Brown/securities brokerage	$0.50	$2.22	51%	9	28%	Higher commission revenues and underwriting fees
Louisiana Pacific/forest prods	2.46	1.84	47	22	–5	Increased lumber shipments and stronger pricing
American President/maritime	–3.46	1.85	43	19	24	Improved volume and higher shipping rates
Whirlpool/household appliances	1.04	2.34	39	15	11	Strong performance from Brazilian operations
Affiliated Bankshares Col/banking	0.86	1.52	30	15	28	Higher net interest revenue and lower loan loss reserves

Who's not

Greatest decrease in estimates over the past three months

Company/industry	1990 EPS	1991 estimate recent	1991 estimate 3-month change	P/E	3-month price change	Reason
Cadence Design Sys/software	$1.19	$0.56	–54%	31	–6%	Slowdown in orders
Amax/metals	2.58	0.75	–51	26	–20	Lower aluminum prices
Citicorp/banking	0.57	0.60	–50	25	–8	Higher loan chargeoffs and poor credit quality
Timken/machinery	1.85	0.66	–49	40	–2	Lower production volume
Pyramid Technology/computers	1.61	0.89	–48	19	–9	Rising dollar and slowdown in orders from computer dealers

Note: Companies listed have a market capitalization of $100 million or more. Earnings projections are Wall Street consensus estimates data from 3,000 security analysts compiled by the Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan Investment Services. Aaa bond yield forecasts supplied by Blue Chip Economic Advisors. NA: Not available.

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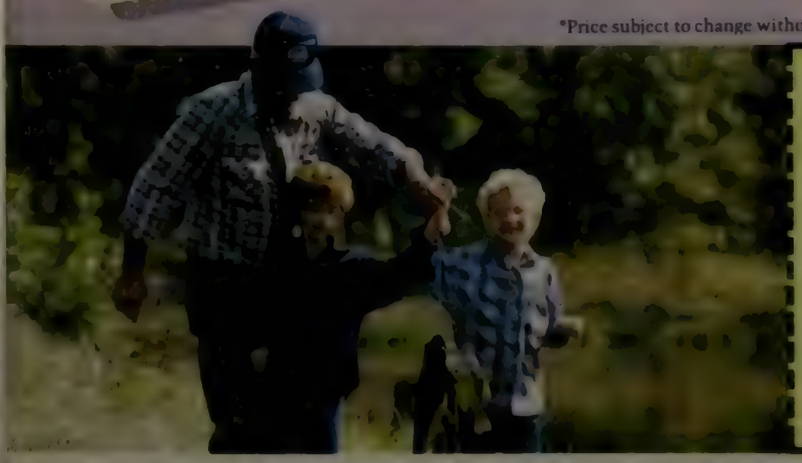

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This tale of two fund operators, one small and unknown, the other big and successful, shows that a lot of investors buy fads rather than long-term performers.

Virtue unrewarded

By Suzanne L. Oliver

ROBERT BACARELLA is a good money manager, but he couldn't sell his way out of a paper bag. In 1986 Bacarella introduced the Monetta Fund. His investment performance has been outstanding, handily outpacing the stock market, yet Monetta has accumulated a trifling $27 million in assets. That's scarcely enough to pay off the accountant, the lawyer, the custodian and the landlord.

Contrast Michael Freedman, who brought out the Blanchard Strategic Growth Fund, also in 1986. He sits high in the elegant corner office of a Manhattan skyscraper. His hard-sell, direct-mail strategy has Freedman rolling in $1 billion in assets. His performance? Middle of the road.

The tales of these two funds prove again that funds aren't bought, they're sold.

Freedman is essentially a salesman. He once did hard selling for Bernie Cornfeld's collapsed Investor Overseas Services. He has also sold imported housewares, diamonds and stocks.

Robert Bacarella, 42, began an investment club in 1975 with his brother and three friends. "We started with $150 each and $10 monthly contributions. In ten years we wanted to have $1 million and operate as a mutual fund," says Bacarella, sitting in his small Wheaton, Ill. office.

Bacarella worked days in the pension department of auto-parts manufacturer Borg-Warner from 1972 to 1989. At night he studied for his M.B.A. and ran the investment club. He ran it like a tough business school course. Members were assigned industries to follow and had to make presentations on individual stocks, with recommendations. Bacarella grilled the presenters, and he frightened a few of them away.

By 1985 the club had 65 investors and $1 million. So Bacarella went to work registering a mutual fund. The first sharkskin-suited securities lawyer Bacarella met wanted $50,000 cash just to start the work. It took Bacarella months to find some ex-Securities & Exchange Commission staffers to register the Monetta Fund for $10,000. Bacarella also signed up Peat Marwick Mitchell & Co., a former employer, to do the fund's accounting for a cheap $5,000 a year. First Wisconsin Trust Co. gave the fund a break on custodial fees, charging $6 per account per year, 33% off.

Chris Wade

Blanchard Funds' Michael Freedman

For you, special! Half off!

Monetta Fund shareholders helped out, too. One, who worked at First Chicago Bank, arranged discount brokerage service for the fund. Another, a lawyer, offered the Monetta Fund an office for $100 a month. Still, the 1% management fee on $1 million brought in just $10,000 a year. So Bacarella sold 40% of the management company to friends for $150,000. When he quit his job at Borg-Warner, the company gave him $60 million of its pension money to manage, at a fee of 0.5% a year. That has kept a roof over Bacarella's head.

For four years Bacarella unsuccessfully tried to attract the 1,000 shareholders necessary to get the price of Monetta Fund shares listed in newspapers. Bacarella and his three-person staff passed out hundreds of pamphlets on the Monetta Fund at trade fairs in Chicago suburbs. He raffled T-shirts. He mailed letters to neighborhood parents offering to contribute $20 to new accounts opened in a child's name. No response. "I can't believe nobody called," he says. Says Timothy Cekal, Bacarella's stock trader, "Weeks would go by without any new shareholders. Every shareholder we had was the relative or friend of somebody in the office."

Yet those investors smart enough to beat a path to Bacarella's door have fared handsomely. Since it began, his fund has averaged a 15.5% annual return, according to Lipper Analytical Services, beating the S&P 500 by more than 2 percentage points. Monetta Fund's 1.5% expense ratio last year was a little on the high side, but recent asset gains should push the number down to 1.2% this year.

Only 7,404 investors, however, enjoy Bacarella's gains. More than 53,000 investors are shareholders of the Blanchard Funds.

Maybe Bacarella should take a course in salesmanship from Michael Freedman. Inside the offices of the Blanchard Group of Funds sits a receptionist, with two canvas mailbags at her feet brimming with business reply cards detached from direct-mail solicitations. "Yes! New fund! Yours Free," the cards say. Most are requests for information about Blanchard Short-Term Global Income Fund, which has grown to $780 million since it was started in January.

In another room four men sit at a table stuffing pamphlets, prospectuses and application forms into gray mailers. Next door five shareholder service agents answer calls: 1,000 in a recent week. In the corner office,

ensconced among English prints, hunter green walls and mahogany furniture, sits Michael Freedman, 49.

The success of the Blanchard funds is rooted in marketing, not in investment philosophy. In 1984, after Freedman sold his partnership in a stock brokerage firm, he approached his friend James Blanchard III with an idea for a mutual fund. It would allocate its assets among precious metals, domestic stocks and bonds and international stocks. It would capitalize on that recent buzzword—asset allocation.

Freedman knew Blanchard's name had draw. Blanchard ran a newsletter on gold, a successful gold and silver coin mail-order business and a well-attended annual investment conference for individual investors. Blanchard agreed and bought a minority stake in the Sheffield Management Co., which in turn brought out the Blanchard Strategic Growth Fund.

Freedman hired money managers for each asset group of the Blanchard Strategic Growth Fund and an economist to be the asset allocator. Freedman's smartest move was to persuade the man who had designed Blanchard's direct-mail campaigns to work for him. Freedman started with Blanchard's mailing lists of some 200,000 newsletter subscribers and conference attendees; later he rented lists of the *Wall Street Journal* and *Money* magazine subscribers. The fund raised $200 million in a year.

In June 1988 Freedman brought out a precious metals fund managed by the outside adviser who also manages the precious metals portion of Strategic Growth. In 1989 Freedman added a money market fund.

When it comes to fees and charges, Freedman's older funds are no bargain. But part of his pitch is that for a limited time the investor can save half off the account opening fee, which is $125 for Strategic Growth and Precious Metals and $75 for the Short-Term Global Income Fund. The fee helps Freedman recoup his high direct-mail costs. Another revenue source: the funds' unusually large 0.8%-per-year 12b-1 (marketing) fee on the Strategic Growth and Precious Metals funds.

Part of Freedman's success comes from his ability to seize on and package the latest investment fad. Nearly 18 months after Alliance struck gold with its Multi-Market Trust, a short-term global income fund, Freedman put together a knockoff. He hired a Swiss firm to manage the fund. Then he spent $1 million on mailings and newsletter inserts that have had a phenomenal 3% response rate. One-fifth of respondents have become shareholders. Thus, by sending out 1,000 pieces of mail at about 60 cents apiece and another 30 prospectuses, Freedman gets six customers. Cost of putting one customer on the books: $115. That's high, but the fund's average account size is $22,000, yielding $154 of revenue per year at the fund's estimated 0.7% expense ratio (based on $250 million in fund assets and some subsidizing of expenses by the sponsor). But assets keep flowing into the fund. Freedman expects its expense ratio to be 1.25% by January 1992 without any expense absorption.

Lewis Tilby/Black/Tilby

Monetta Fund's Robert Bacarella

They snubbed his $20 gift certificates.

Now, let's look again at performance. Blanchard's Short-Term Global Income Fund ranks 13th out of 38 in its Lipper class for the six months through September. Strategic Growth is in the middle of its peer group, but its 8.6%, five-year annualized return is puny compared with the S&P 500's 14.7%. Over the past three years the Precious Metals Fund had a negative 8.7% annualized return, putting it at 29th out of 31 gold-oriented funds. Some disillusioned investors have moved assets from the Strategic Growth Fund to the Short-Term Global Income Fund. But when the overseas yield advantage diminishes, assets may leave the Short-Term Global Income Fund, as they have the Strategic Growth Fund.

A drag on performance on three of the Blanchard funds is high fees. From the Vanguard Group, investors can get a gold fund that costs 0.4% a year, or an allocation fund at 0.5%. Compare Blanchard Precious Metals at 3% and Blanchard Strategic at 2.4%. The Blanchard money market, at 1.1% a year, costs four times as much as a money market from Vanguard.

The Blanchard Fund family is a real moneymaker—for the operators, that is. As for fund buyers, it vividly illustrates the fact that a lot of them don't comparison shop.

Meanwhile, Robert Bacarella plugs away, giving his investors a good deal and wishing there were more of them. His style, going back to the early days of the investment club, is to buy into small companies with good revenue growth, then sell the stock if it goes up or down 30%—don't be greedy and don't let your losses get away from you. Bacarella often sells losers before they drop 30%, but he is rigid about selling when he has a 30% gain. "No one can make a good decision about a stock that has been successful while it is still in his portfolio," says Bacarella, who sells the winning stock and reconsiders it for purchase a month later. "We only end up buying back about five stocks a year."

Bacarella recently added International House of Pancakes, at an average cost of $11, banking on forecasts of $21 per share in sales for 1992, which should make the stock worth $22 within a year. The stock rose to 13¼. He also bought Home Shopping Network at 6. Bacarella thinks the company will take in $15 a share in revenues this year and expects the stock to go to at least 9 in a year. Monetta's other large positions are in Compression Labs, a maker of video-conferencing systems, health maintenance organization U.S. Healthcare and greeting-card maker American Greetings.

Bacarella loves managing money, but he is less charmed with marketing and running a business. "If I knew then what I know now, I probably wouldn't have done it," he says about his slow-selling mutual fund. ■

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Here's how to pick a high-yield tax-free bond fund. There are some risks, but not as many as you might think.

High yield doesn't always mean junk

BY BEN WEBERMAN

Ben Weberman is a columnist for FORBES magazine.

INVESTORS trolling for generous yields in this market when rates are the lowest in years should consider high-yield tax-free municipal bond funds.

General-purpose tax-free funds pay 6.4% while the high-yield funds, as a group, are paying 7.2%, according to Lipper Analytical Services. Is the additional 0.8% a year worth the risk? In the case of most municipal bond funds, the answer is yes.

The basic problem for the individual investor is weighing all the elements that must go into the decision of buying a municipal issue: What's the economic situation of the issuing jurisdiction; how secure is the credit; and are there additional guarantees like bond insurance or letters of credit? And so on. Lots to consider.

Without sufficient credit analysis and up-to-date financial information, an investor is likely to get stuck with losses from sick hospital bonds or turbulent airport issues. Some losses will come from market declines because of downgrading, others from missing interest and principal payments because of outright default.

That's why mutual funds make more sense. Mutual fund organizations, especially the larger ones, have credit analysts who keep on top of the fortunes of issues. Substantial buyers, they receive early calls from market sources about unfolding developments. Individual investors can't expect much along these lines.

Look for funds that place some emphasis on quality even though their objective is high yield. They go after total return and issue yield. The stress is on trading profits from fallen angels that will recover, more than on high-risk, high-return junk bonds.

While the 7%-plus yields are attractive to investors, the high-yield funds should also be considered in terms of total return. That is, the sum of price gain and interest received. In an average total return of 11.13% for the high-yield funds over the past 12 months, Lipper shows a gain of 16.22% for Vanguard's Municipal High-Yield fund. Fidelity's Aggressive Tax-Free fund has a total return of 11.63%, and the T. Rowe Price Tax-Free High-Yield fund gained 11.79%.

But total return is a volatile measure, propelled not only by overall market trends but also factors like average maturity and credit quality risk. Thus, the big jump for Vanguard this year compares with 8.76% annual average total return over the last five years, or 8.21% for T. Rowe Price and 8.87% for Fidelity Aggressive.

A large number of high-yield bond mutual funds exist. Lipper lists 26. They have differing characteristics that must be measured by investors. Vanguard, for example, goes for undervalued situations and has minimal holdings of non-investment-quality or unrated bonds. Ian MacKinnon, head of the fixed income group at Vanguard, says the average quality of the billion-dollar portfolio is A, with only 12% of its bonds unrated.

As an example of trading profit potential without dipping into the junk category, he points out that 6% of the portfolio is invested in AAA-rated State of California debt. While these securities carry annual interest of only 6.7%, he expects a sharp price rally as the state gets its budget deficit into shape. At that time the securities will be sold for market profit.

Some of the portfolio is invested in bonds that are subject to AMT—alternative minimum tax—which taxpayers with a high proportion of tax shelters must pay. Only 9% of the portfolio is in hospital bonds. The biggest holding is 19% in essential electric utility bonds.

T. Rowe Price's Tax-Free High-Yield fund has 26% of its portfolio in bonds below investment grade, says William Reynolds, portfolio manager. He characterizes the bonds as "not junk but less liquid, smaller issues."

Reynolds mentions Kentucky's Vanceburg Electric as a security that was in default when purchased but which subsequently became current and was sold for a large profit.

At Fidelity, Anne Punzak, manager of the Aggressive Tax-Free fund, notes that 35% of the portfolio is in non-investment-grade issues. The latter are predominantly health care and utilities. The orientation, as with the two funds mentioned, is toward total return. An example: 3% of the portfolio is in CCC-quality bonds, such as Arizona Health Facilities Authority St. Luke's Hospital of Phoenix. The institution had some problems during a management change but is now showing improvement. Its rating should be upgraded to B or even BB from the current CCC, bringing commensurate price improvement.

In addition to funds mentioned here, there are dozens of single-state funds. Interest on national funds is generally subject to state income tax although exempt from federal income tax, while revenues from in-state securities are usually exempt from federal as well as from home state taxes. ■

It is time for new market leadership among the small caps, and it will come, not from growth stocks, but from stocks that provide unexpected growth.

Surprise

BY KENNETH L. FISHER

Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: *The Wall Street Waltz* and *Super Stocks*.

IN MAY I started saying that so-called value stocks—those at cheap statistical valuations—would do better than recognized growth stocks selling at fancy prices. It hasn't happened yet. The so-called growth stocks have continued to outperform the others.

In the third quarter they did more than twice as well as the value stocks. The OTC Composite index, which basically measures medium-size growth stocks, was up more than 10%. Meanwhile, the Value Line Arithmetic index, a pretty darn good proxy for America's average-size stock with average valuations, was up only a hair over 5%. By simple math, the hard-to-measure value sector must have lagged even more.

It's the old story. Trends go to extremes. The big pension plans, the guys with all the bucks, and often the greatest fools, have thrown allocations at "growth" this year like mud at a wall. But it's a little late now. We are five years into the growth fad. In 1986, when the growth stock bull market began, the big boys were buying the value stocks that had been hot in the prior four years, and have done zip ever since. Just as they got on the bandwagon late, they will be late in getting off. Don't be like them.

My advice to my readers is: Buy into the next five years' value cycle before the big investors do. Not growth. Expectations for well-recognized smaller-growth names are at levels I have seen only in 1983—higher than those of 1972—and both of those were simply disastrous times to buy recognized growth.

The reason I think value stocks will do better than recognized growth is simply that among those value stocks will be some that provide unexpected growth. Here are three I like.

Computer Task Group (8) was among the stocks suggested in my very first FORBES column, way back on July 16, 1984. The stock nearly tripled in the next two years, but has since drifted back almost to the $7 where it was when I first recommended it. I think it's time to buy again. The company was then and is now among the top vendors of computer-related services to large corporations. If you're a huge firm having trouble with your large tangle of computer software or developing more of it, you have a mess on your hands. Computer Task Group is a firm you would seek to help clean up your mess.

Not only has the firm grown over the years, albeit not at explosive rates, but it is also very strong financially. Its nonearning cash flow is big enough to pay off all its debt in less than three years. I think it can grow for a long time. This turf is a long way from being all staked out. And no one is more experienced or skilled in it than Dave Campbell and Jack Courtney, who run Computer Task Group. I have watched them for ten years and am very confident of their skills. But the best part is you don't have to pay up for them. The stock is about where it was in 1984, despite the firm's being three times larger. It also sells for 25% of its annual revenue, 80% of book value and less than 10 times what it will be earning after this recession is just a historical statistic.

Chemed (20) is a stock nobody expects anything from. I must really be a fool to think it can do well. It's down near its 1990 lows, having fallen from 39 in 1989, and it has been nowhere in the last decade. You could have bought the stock at this price in 1982's bear market. Where is the sizzle? I try not to buy sizzle, but it is hard to beef at a firm that is cash rich with a strong balance sheet, has been reducing debt, buying back shares, will be doing more of the same and which, meanwhile, has a 10% dividend yield. And all this in a firm where part of the business is a simply great brand name—Roto-Rooter—and in the other part, the distribution of janitorial supplies, you have high relative market share. Despite low expectations, I will bet both areas do nicely in the 1990s—and the stock, too.

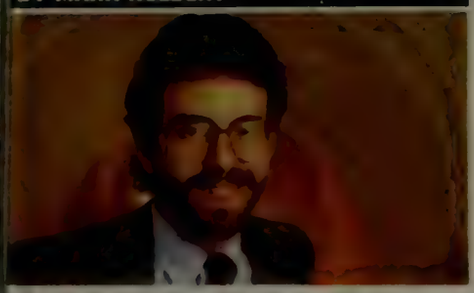
Carlisle (35) is another stock I like now that has gone nowhere forever and where there are few or no investor expectations for growth. Problem is: Carlisle is too diversified and in too many seemingly boring areas like automotive parts, wire and cable, and roofing materials for folks to envision growth prospects. And in the one area that seemed to have pizzazz, its technology segment, results have been sad, having just suffered a major restructuring charge.

But look overseas and to acquisitions and I think you will see 10% to 12% growth. Starting from a base where the stock is cheap, that should be more than enough to push the price higher. Selling at 120% of book value, which is understated, and 10 times postrecession earnings is fine. But Carlisle's huge nonearning cash throwoff is spectacular—its annual cash flow yield is almost 20%. I would expect it to use some of that cash flow to buy back more stock, as it has been doing, which will also help drive Carlisle's stock higher. ■

Assuming that today's winner will be tomorrow's as well is a dangerous assumption. Be careful of making it unless you have a very long time frame.

Lessons from the past

BY MARK HULBERT



Mark Hulbert is editor of the Alexandria, Va.-based *Hulbert Financial Digest*. His newest book is *The Hulbert Guide to Financial Newsletters* (New York Institute of Finance).

"PAST PERFORMANCE is no guarantee of future results." So goes the catchphrase you find in ads for money managers and mutual funds. The truth is sometimes even more sobering than this. Past performance, if you aren't careful about how you look at it, does not provide even a glimmer of future results.

I analyzed data gathered for my *Hulbert Financial Digest* to determine the connection between past and future among investment letters. The clear conclusion is this: The list of the best performers over the past quarter or year is worse than useless as a gauge of which will beat the market over the coming 3 or 12 months. On the other hand, the ranking of the best long-term performers (over five years and longer, that is) is very valuable in picking an investment letter, especially if you plan to stay with that letter for at least another five years.

Consider how poorly you would have done over the last decade had you switched each year into those letters that had beaten the market over the previous 12 months. For the ten years ending mid-1991, you would have averaged a pathetic 3% a year with this strategy. That compares with 14% for the Wilshire 5000 (both figures are for total return). Even the one-year losers did better than the one-year winners: A portfolio that invested each year in the previous year's losers made 12% a year.

This result may do no more than confirm your anecdotally based suspicions. All too often, the investment adviser who is on top for performance over one year is at the bottom the next. Joe Granville's *Granville Market Letter* provides a classic example. After finishing in first place among 97 contestants for performance during 1989, it came in last in 1990 with a loss of 70%.

The essentially random nature of short-term performance rankings also can be seen in the experience of one of the mutual fund advisory services I track. *No-Load Fund* X*, edited by Burton Berry, has made a valiant attempt over the years to devise a mutual fund switching system based on funds' short-term performance rankings. His system calls for monthly switching into those funds that have had the highest performance rank over the previous 1, 3, 6 and 12 months. This system hasn't beaten the market. Over the last ten years, Berry's recommendations produced a return averaging over 3 points a year below the market's 14%.

Over how long a period should you judge performance in order to increase your odds of investment success? Five years, at least, and ten years would be even better.

Since mid-1985 to date, the period for which I have data, a portfolio that invested with the five-year market-beaters and stayed with them for five years averaged an annual return of 15.1%. This is nearly three times as much as the 6.2% gained by a portfolio that invested according to those advisers who didn't beat the market over the previous five years—and almost twice the 8.2% return of secondary stocks, as measured by the Nasdaq OTC Composite index.

True, the portfolio of five-year winners slightly lagged the blue-chip-dominated S&P 500, which gained 15.6% a year. But more than anything this is a reflection of the fact that the blue chips have dominated this bull market, while secondaries—the special province of investment letters—have been laggards. In a more normal market in which secondaries reassert their historical dominance over the blue chips, I would expect the long-term winners to continue to beat the S&P 500.

How about a strategy of investing with the 10-year market beaters? Since I have only 11 years of data for investment letters, I have only one year's experience for such a strategy—not enough for more than a tentative conclusion. But so far the portfolio that follows the 10-year winners is well ahead of the market.

The bottom line? While the jury is still out on whether we'll be able to devise a foolproof way of exploiting past performance to beat the market in the future, there's no doubt that going with the long-term winners dramatically increases your odds of success. The average long-term market beater will perform much better in the future than the average long-term loser. Random walkers, take note.

Which letters have the best long-term performance? Just five are ahead of the market for performance since 1980: the *Zweig Forecast*, the *Value Line Investment Survey*, the *Chartist*, the *Value Line OTC Special Situations Survey*, and *Growth Stock Outlook*. While there's no guarantee these five will beat the market over the next decade, odds nevertheless are overwhelming that they will do better than the average letter that didn't beat the market since 1980. ■

Anywhere but on Wall Street the process used to estimate company earnings would be viewed as a total insult to the public's intelligence.

Fiction and forecasts

BY FREDERICK E. ROWE JR.

Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

MY FORMAL INTRODUCTION to the stock market took the form of a business school course called "Security Analysis and Portfolio Management." The term project was to "carefully analyze a publicly traded company." When my paper was returned to me, viciously scratched in red ink below a less-than-outstanding grade was the comment, "This sounds like it could have been written by some Wall Street stock brokerage firm."

The comment was not intended or taken as a compliment. Nor was there any intimation that I had plagiarized the work of some Wall Street genius. What the good professor was really saying was, "This is lightweight stuff. You don't have any idea what you are talking about." Needless to say, the professor was right.

Today, of course, in the collective mind of the institutional investors who dominate the market, knowing what you are talking about with respect to an individual security is secondary to the asset allocation decision. Do we want to own stocks? If so, how do we allocate our funds? How much money do we invest in large-capitalization value stocks? How much do we invest in small-cap growth stocks? Do we overweight health care or underweight health care? This is no longer stock picking. It is commodity trading.

Once asset allocation decisions have been made, the portfolio manager must move fast. Growth as opposed to value investing is currently in vogue. A typical portfolio manager relies on Wall Street for earnings estimates. Are earnings-per-share estimates rising? Are we under- or overweighted in this sector? Which chart patterns look best? Bam! Decisions on individual stocks are made and buy tickets are handed to the institutional trader. In fast-moving markets, there is no time for agonizing over individual securities.

It's now a world where companies that equal or, it is hoped, exceed widely circulated earnings-per-share estimates are rewarded in the stock market, and companies that disappoint are punished. But whence come these all-important earnings-per-share estimates, the slightest deviation from which causes wide swings in the market? For the most part they are spoon-fed by company managements to the analysts who follow their industries. Readers of Wall Street research will frequently read sentences like, "United Zip Lock earned $1.34 for the third quarter, which was in line with our estimate of $1.33 to $1.35."

Anywhere else but on Wall Street the process of estimating would be viewed as a total insult to the public's intelligence. Imagine CBS' Dan Rather having a private conversation with President Bush. Rather: "President Bush, what time will you go to bed tonight?" President Bush: "I expect I'll go to bed right after the 11 o'clock news." Rather then goes on national television: "Last night, the President went to bed at 11:34 p.m., which was in line with our estimate of 11:33 to 11:35 p.m."

Generally accepted accounting principles give companies fairly wide latitude in how they recognize revenues and how they recognize expenses. (Did you hear about the Texas Aggie football player who signed a $1 million contract to play pro ball? Yep, $1 per year for the next million years.) Resourceful chief executive officers and chief financial officers can tailor earnings reports for amazingly extended periods of time, depending upon the pictures they wish to present to Wall Street. This is particularly true for companies that are growing.

Eventually, however, the chickens come home to roost and earnings-per-share figures must reflect something close to balance-sheet realities. A notable example is *Community Psychiatric Centers,* twice negatively mentioned in this column *(Oct. 29, 1990 and Feb. 18)*. Until the third quarter of 1991 the company had strung together more than 80 consecutive quarters of rising earnings, despite all sorts of industry problems. In order to maintain its record, the company employed every legal trick in the book. By and large, however, the analysts dutifully accepted management's optimistic forecasts. Then, for the third quarter, it reported earnings of 1 cent per share versus 43 cents a year ago. The stock has dropped from a 1991 high of 40 to 16. The company finally admitted that there were a few problems with its receivables.

Interestingly, there is an emerging trend for managements to come clean with the numbers sooner rather than later. This trend has nothing to do with Wall Street analysts becoming more perceptive. They haven't. Rather, accounting firms and directors who can't get liability insurance are less willing to enable Wall Street and the managements they oversee to delude each other.

A few companies whose rosy earnings-per-share figures I feel present too favorable a picture are *Compression Labs* (21), *50-Off Stores* (23), *Healthcare Services Group* (22) and *McDonnell Douglas Corp.* (63). I would avoid them.

When you buy bonds, don't bite at new issues. They are almost invariably overpriced.

Herd on The Street

BY MATTHEW WINKLER

Matthew Winkler is editor-in-chief of *Bloomberg Business News*.

SOMETIMES you get a better value from a used car than you do from a spanking new one right off the showroom floor. It's an argument that can be applied with equal logic to the corporate bond market.

Why is that? New-issue prices on bonds typically are too high and their yields are too low compared with the rest of the market. That's because corporations, fulfilling their fiduciary duty to stockholders, play one underwriter against another to get the lowest possible borrowing cost. Yield for the investor therefore suffers. Which in turn doesn't say a whole lot about the investment savvy of institutions that buy almost all of the new issues that come to market.

The $987 billion corporate bond market is one of those rare shops where the seasoned merchandise sitting on the shelf frequently has greater value than the pristine stuff waiting to be unpacked. Nevertheless, institutional investors—often forced to buy in bulk—grab the newest offerings because they can buy in huge amounts at a set price.

Take Deere & Co.'s 8.25% bonds maturing in 1996. Sold on May 31 at a price of 99.772 to yield 8.304%, the bonds rose to 100.54 by Sept. 3 after a summer-long bond market rally.

By contrast, any investor on May 31 could have snapped up similarly rated Philip Morris dusty 8.875% bonds due in 1996 at a price of 101.45. By Sept. 3, they were quoted at 102.95.

The difference: The Deere issue, fresh from the printer, appreciated $7.68 per $1,000 bond. The slightly yellowed Philip Morris bonds gained $14.10 for each $1,000 bond during the same period. Deere, astute about its cachet with underwriters, could not refuse an offer from its underwriters to sell the bonds at a yield well below those on comparable outstanding issues.

The Deeres initially were priced to yield at least 10 basis points less than similarly rated, similarly structured bonds. By June 18 the Deere bonds yielded 18 basis points less than similarly rated bonds.

Wall Street is experiencing a bond-selling boom that is fattening its profits. During the first six months of 1991 U.S. corporations sold about $97 billion of new issues, up 71% from $56.7 billion in the same period last year.

But for investors, bull markets—or a period of declining interest rates—often are the most treacherous for purchasing new corporate bonds because underwriters pay a relatively high price on the assumption they can sell the same bonds at an even higher price weeks later.

Trouble is the bonds wind up underperforming the rest of the market until some institutional investors dump their holdings. This enables the bonds to trade freely and catch up in yield with the rest of the market.

This process can take months and sometimes years.

Another new offering that dazzled money managers when it was sold Aug. 7 is Boeing Co.'s 8.75% bonds, maturing in 2021. The Boeing's were priced to yield 8.80%, or 65 basis points more than the Treasury's 8.125% bonds due August 2021. Initial investor demand for the issue was so strong that its underwriters increased the offering by $100 million, to $400 million.

The buyers should have known better. Recently the Boeing issue was quoted by traders to yield about 8.72%, and the gap between the Boeings and the Treasurys had widened to 73 basis points.

By almost any measure, the Boeing bonds were too expensive when first sold. Comparably rated Hershey Food Co.'s seasoned 8.80% bonds due 2021 yielded 8.86% on Aug. 7 and 8.92% on Aug. 9. Yet money managers could not say enough good things about the Boeing offering as it came to market.

Why is this significant? An investor who bought the Hershey bonds Aug. 7 and kept them until Sept. 9 made $17.20 per $1,000 face amount. The investor in the Boeing issue made only $8.24 per $1,000 face amount during the same period. The proof that Boeing bondholders got short-changed came on Sept. 10 when the company sold bonds at a yield that was substantially higher to Treasurys than the earlier issue.

Similarly, some seasoned telephone bonds have been among the best buys recently. Consider Chesapeake & Potomac Telephone of West Virginia's 9.25s due in 2019 and Southwestern Bell's 8.75s maturing in 2018.

An investor who bought the Chesapeakes (a Bell Atlantic subsidiary) on May 30 at 99.21 to yield 9.33% could have sold them on Oct. 2 at 102.87 to yield 8.97%. That's a profit of $36.66 for each $1,000 bond.

And those who bought the Southwestern Bells on June 3 at 94.05 to yield 9.35% could have sold them on Oct. 2 at 99.17 to yield 8.83%. The gain in this instance was $51.20 for each $1,000 bond.

The lesson here is, if you're interested in corporate bonds, shop around for quality oldies, rather than jumping in with all the rest of the so-called savvy investors on new issues. Let someone else break the new bonds in for you. ■

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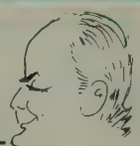

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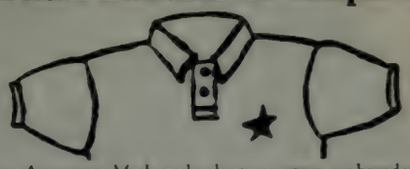

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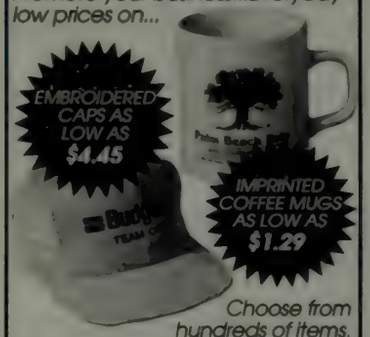

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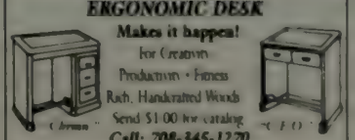

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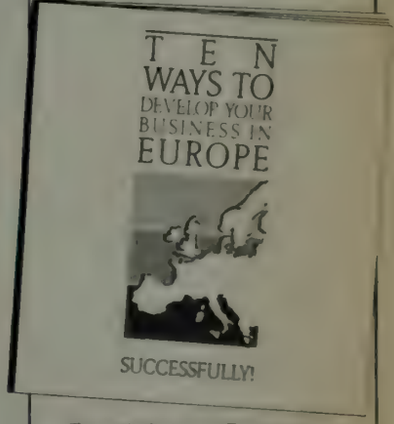

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How to love a sideways waffle

INVESTORS are antsy. After surging 17.6% during the 22 trading days starting Jan. 16, the S&P 500 has been waffling sideways, and at levels of earnings and dividend yields that suggest the next move could be down. (The good news: *Fortune* is now warning that the market may be too high.) Suddenly, folks who normally don't think much of market timing have begun to wonder if they should get out of the market while the getting is still relatively good.

Come now two professors with some fascinating data. Their basic conclusion: The market moves in fits and starts, and the perils inherent in being out of the market during the fits are so dangerous that investors should plan to be in at all times.

The professors are P.R. Chandy of the University of North Texas and William Reichenstein of Baylor University. Their case is presented in an article in the August issue of *AAII Journal,* published by the American Association of Individual Investors.

Chandy and Reichenstein examined the distribution of monthly stock returns for the S&P 500 from 1926 through 1987. They found that if the best 50 months—only 6.7% of the total time period—were deleted, the S&P 500's entire 62-year return (before inflation) disappeared. In other words, there is a huge penalty associated with being out of the market at the wrong time. Another finding: The long-term advantage of stocks over Treasury bills would have been completely wiped out if an investor had missed the best 26 months. When it came to small stocks, returns proved to be even more concentrated in relatively few high-appreciation periods.

What if a clairvoyant investor had been clever enough to be in the market during the good times and out during the bad? "If my mother had wings, she could fly," says Reichenstein. "The concentration of stock returns [in a few periods] clearly underlines the limits to relying on market timing. The deck is stacked against you. You see by the data how easy it is to miss the boat. If you're a long-term investor, there's really no time you can afford to be out of the market."

John Seger

So if you're currently trying to time when the market will begin its next leg up or down, Reichenstein's advice is to forget it. Buy the stocks you like and learn to live with the sideways-waffling periods. Even after seven months out to pasture, the bull may be just around the corner.

Soap? Or suds?

RUMORS have rippled through the cosmetics industry since last spring that Neutrogena Corp.—in shampoo, soap and skin care products—was on the auction block. In September *Business Week* reported "smart-money players" were buying the stock in the belief that Chairman Lloyd Cotsen, whose family controls 44%, was readying a full or partial sale of the $234 million (estimated sales) company. Largely on the takeover talk, o-t-c-listed Neutrogena has jumped from around 16 in June to a high of 24. Recent price: 21¼.

Even if a deal's imminent, the stock still looks awfully rich. Analysts expect the company to earn 80 cents a share this year, up 23% over 1990. Suppose they're right. Then the market's already valuing Neutrogena at over 26 times prospective 1991 earnings. Worse, its current price values Neutrogena at better than 2 times sales. The last cosmetics company to be sold—Max Factor, bought in the spring by Procter & Gamble—fetched less than 1.5 times sales.

Another clue that a takeover may be more suds than soap: In recent months Chairman Cotsen has reported his intentions to sell 150,000 of his shares. According to Richard Horowitz of Dallas-based Insiders Edge, he has sold at least 61,000 shares since late July, at prices between $18 and $23.25 a share.

Cotsen and his family still control over 40% of the company's 26.3 million shares. Nonetheless, Streetwalker's advice is to follow Cotsen's lead and sell. —GRETCHEN MORGENSON

China card

LOOKING FOR a way to play the capitalist revolution in southern China (FORBES, *Aug. 5*)? Analyst Stuart Crane of New York's A.R. Schmeidler & Co. recommends the American Depositary Receipts of Hong Kong Telecommunications Ltd. Recent NYSE price: 29½.

Mainland China already accounts for about 20% of Hong Kong Telecom's $2.4 billion of estimated revenues and some 40% of its long-distance traffic. This traffic is growing rapidly. Consider that the first cable linking southern China's Guangdong province to Hong Kong was built only three years ago. It's already so overloaded that a second link is now under construction.

The company's also cleaning up its local service, where 80% of its system is digitized. Thanks to low costs, it can offer its 2.5-million-plus subscribers unlimited local calls for a mere $7.1[illegible] a month. What's more, Hong Kong Telecom's operating expenses should go lower still. Crane expects HKT to have 100% of its transmission system on fiber-optic cable, as well as completely computerized switching capability, by late 1993.

Crane expects Hong Kong Telecom to earn $2.05 per ADR, up 17%, in the fiscal year ending Mar. 31, 1992. He's estimating a 14% gain, to $2.33 the following year. In addition, Crane looks for the company to increase its dividend on the ADRs, which is paid twice a year. When last paid, in August, the annualized dividend was nearly $1.37; he thinks it will be raised to an annualized $1.50 this November. At that rate, the stock would currently be yielding around 5%.

There are roughly 10 million ADRs each equal to 30 ordinary shares. Although this represents the equivalent of less than 3% of Hong Kong Tele

om's 11.1 billion outstanding shares which trade in the volatile Hong Kong market), liquidity is no problem. Weekly volume in the ADRs has lately ranged from almost 300,000 to nearly 1 million. Of the total shares, U.K.'s Cable & Wireless Plc. owns 58%; the People's Republic of China owns another 20%.

Where the fizz is

THE CONSOLIDATION of the bottling industry continues apace. Coca-Cola Enterprises, the leading Coke bottler, recently proposed to acquire big, privately held Johnston Bottling Group. Assuming the deal closes, the new company will have 1992 revenues of $5.4 billion.

Who's next? Or, barring that, who's cheap? One bargain, says analyst Joseph Frazzano of Oppenheimer & Co., is $460 million (estimated 1991 sales) Coca-Cola Bottling Co. Consolidated, the U.S.' fifth-largest Coke bottler. The o-t-c stock, which got as high as 58 in 1986 on takeover rumors, lately traded at just 19½.

Based in Charlotte, N.C., the company operates in 12 southeastern states. It got into trouble in the mid-1980s when heavy discounting strategies did not work. Current earnings also are being hurt because of a price war with PepsiCo's wholly owned bottling operation. But the earnings trend is definitely up. Frazzano's per-share estimates for 1991 and 1992 are 30 cents and 50 cents, respectively, versus $5.54 of cumulative losses between 1986 and 1990.

On cash flow, things look decidedly better. From 1986 to 1991 operating cash flow quadrupled, to around $60 million, or $6.50 a share. As pricing firms, Frazzano expects this to rise 5% to 10% next year. Meanwhile, the company, with about $100 million of tax-loss carryforwards, pays no taxes.

Based on its cash flow, Frazzano values Coca-Cola Consolidated at $41 a share, more than double the market. But this is no target for an unfriendly raid. There are 9.2 million outstanding shares, including 1.3 million Class B supervoting shares. Coca-Cola Co. owns 30% of the equity. The Harrison family, led by Chairman J. Frank Harrison Jr., controls 86% of the votes.

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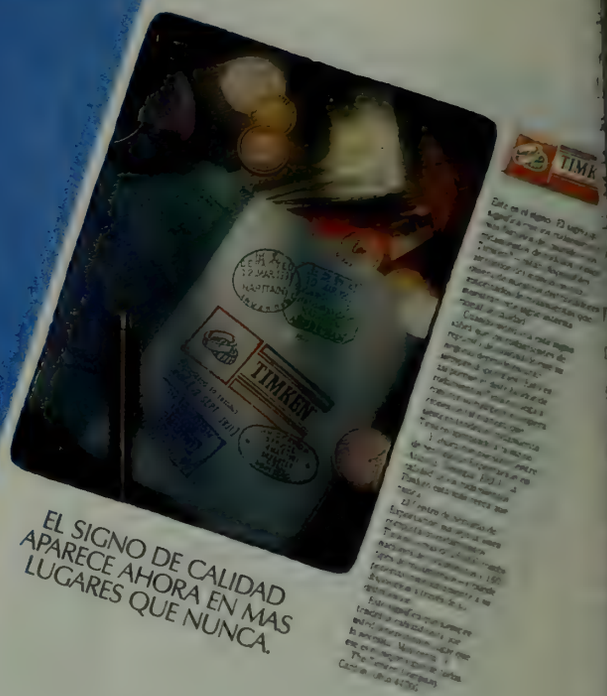

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"The more things change . . ."

70 years ago in FORBES

(FROM THE ISSUE OF OCT. 29, 1921)

"**The American public** associates the name of Leiter with a notorious attempt to corner the supply of wheat and thus force up the price of bread. And now the public reads that Joseph Leiter has had 'more than $300,000 worth of wines and liquors stolen from his country estate, near Washington.' Think of it, more than $300,000 worth of booze in one of the homes of this gentleman. It would take 10 working men, at $1,000 a year each, 30 years to earn what Leiter has put into booze for this cellar alone. How many other wine cellars he owns equally well stocked, the newspapers do not record."

"**When that misshapen** monstrosity, the Fordney Tariff Bill, first saw the light of day, FORBES sounded a warning that the U.S. had no monopoly on the art of constructing high tariff walls, and that if the proposed measure were made a law, other countries would be sure to retaliate. And, sure enough, first one country and then another has given notice that it means to hit back if the Fordney Tariff is imposed."

60 years ago

(FROM THE ISSUE OF NOV. 1, 1931)

"**Attacks,** subtle but vicious, have been made by Europe on the impregnability of the American gold dollar. . . . All sour grapes! The Europeans who circulate such slanders know full well that the American gold dollar has become the most coveted currency in the world."

"**For at least** a short time, such previously serious situations as the British elections, the French gold situation and the German debt problem were set in the background by the development of an international crisis in the growing bitterness between China and Japan. Following intermittent troubles during most of the summer months, the situation developed in not much over a week into a major crisis which threatened for a time to split the most important countries of the world into two armed camps. . . ."

A cramped little air cargo carrier of World War II.

50 years ago

(FROM THE ISSUE OF NOV. 1, 1941)

"**When the defense** emergency is over, and planes and pilots are available, a lot of cargo that travels today on wheels will take wings. Already several aircraft manufacturers have 'flying boxcars' on the drafting boards or in the mock-up stage, ready to push ahead when defense orders cease."

"**Success** sometimes creates problems. This holds true for the fast-growing frosted food industry, where the development of 18,000 retail outlets created need for a truck which could transport frozen food, keep it at subzero temperature at all times. The problem faced W.L. Morrison, inventor of the Deepfreeze system, but it didn't stump him for long. He invented a new type of refrigerated motor truck. . . ."

25 years ago

(FROM THE ISSUE OF NOV. 1, 1966)

"**Mao Tse-tung,** dictator of Communist China, has been carrying on in recent months like a man off his rocker. . . . The description of China's 'new' automobile styles as having been 'inspired by Mao's philosophy' is funny. The tale of a nine-mile swim is pathetic. The unrestrained cruelty of teenage mob terrorists operating with official encouragement is bizarre and barbaric. But most dangerous is what the mentally ill Old Man with All Power could do along and across China's borders." –Malcolm Forbes

"**The annual volume** of what some in the trade euphemistically refer to as men's 'grooming aids' is now approaching something close to $500 million, about three times what it was three years ago. Not only are men's products the fastest-growing segment of the almost $3 billion cosmetics and toiletry business, but practically everybody in reach of a vat is selling them, all the way from old-line cosmetics houses like Elizabeth Arden (whose seven-year-old Arden for Men line now accounts for 12% of total sales) to big detergent makers like Colgate-Palmolive, which came out with its men's 007 line last year."

10 years ago

(FROM THE ISSUE OF OCT. 26, 1981)

"**More than 100** [golf] pros, including the likes of Tom Kite, who this year joined the million-dollar (lifetime) winners' circle, have signed on to have their prizes moved automatically into [Merrill Lynch's Cash Management] accounts. . . . Overall, in four years the Cash Management Accounts have grown to $25 billion in money market fund positions and securities and about 450,000 customers. . . ."

Wide World

Tom Kite sweeps his winnings into a money fund.

"**Robotics has become** as much a Japanese passion as baseball and cherry blossom viewing. According to the Robot Institute of America, Japan has 15,000 working robots, the U.S. has only around 4,000."

Is America becoming decadent? Do we no longer regard our promises and pledges as sacred? . . . We promised to make peace with Germany only in conjunction with the Allies; but we brought forward a separate peace, demanding for ourselves all the advantages of the Treaty of Versailles but rejecting all the responsibilities embodied in the Treaty. It was America's President who induced Europe to form a League of Nations; and then America was the first country that refused to join it. . . . If these are not the symptoms of national decadency, what are they?

–B.C. Forbes

A Text ...

Blessed is the man that feareth the Lord, that delighteth greatly in his commandments. His seed shall be mighty upon earth: the generations of the upright shall be blessed.
–Psalms 112:1-2

Sent in by William A. McCuen, Doylestown, Ohio. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

In America we have an upper crust and a lower crust, but it's what's between—the middle class—that gives the real flavor.
–Virginia L. McCleary

Our ancestors are very good kind of folks, but they are the last people I should choose to have a visiting acquaintance with.
–Richard B. Sheridan

You cannot gauge the intelligence of an American by talking with him; you must work with him. The American polishes and refines his way of doing things—even the most commonplace—the way the French of the seventeenth century polished their maxims.
–Eric Hoffer

Man is an animal that makes bargains; no other animal does this—no dog exchanges bones with another.
–Adam Smith

New York is to the nation what the white church spire is to the village—the visible symbol of aspiration and faith, the white plume saying the way is up!
–E.B. White

A woman has a much better chance than a man of acquittal on a murder charge. Of course, if she happens to be a blonde, her chances rise about 45%.
–Dr. John McGeorge

There was the South Ozone National Bank looking as though it had been waiting for me.
–Willie Sutton

Paper napkins never return from a laundry, nor love from a trip to the law courts.
–John Barrymore

Whenever I date a guy, I think, is this the man I want my children to spend their weekends with?
–Rita Rudner

Snobs talk as if they had begotten their own ancestors.
–Herbert Agar

So far as I can remember, there is not one word in the Gospels in praise of intelligence.
–Bertrand Russell

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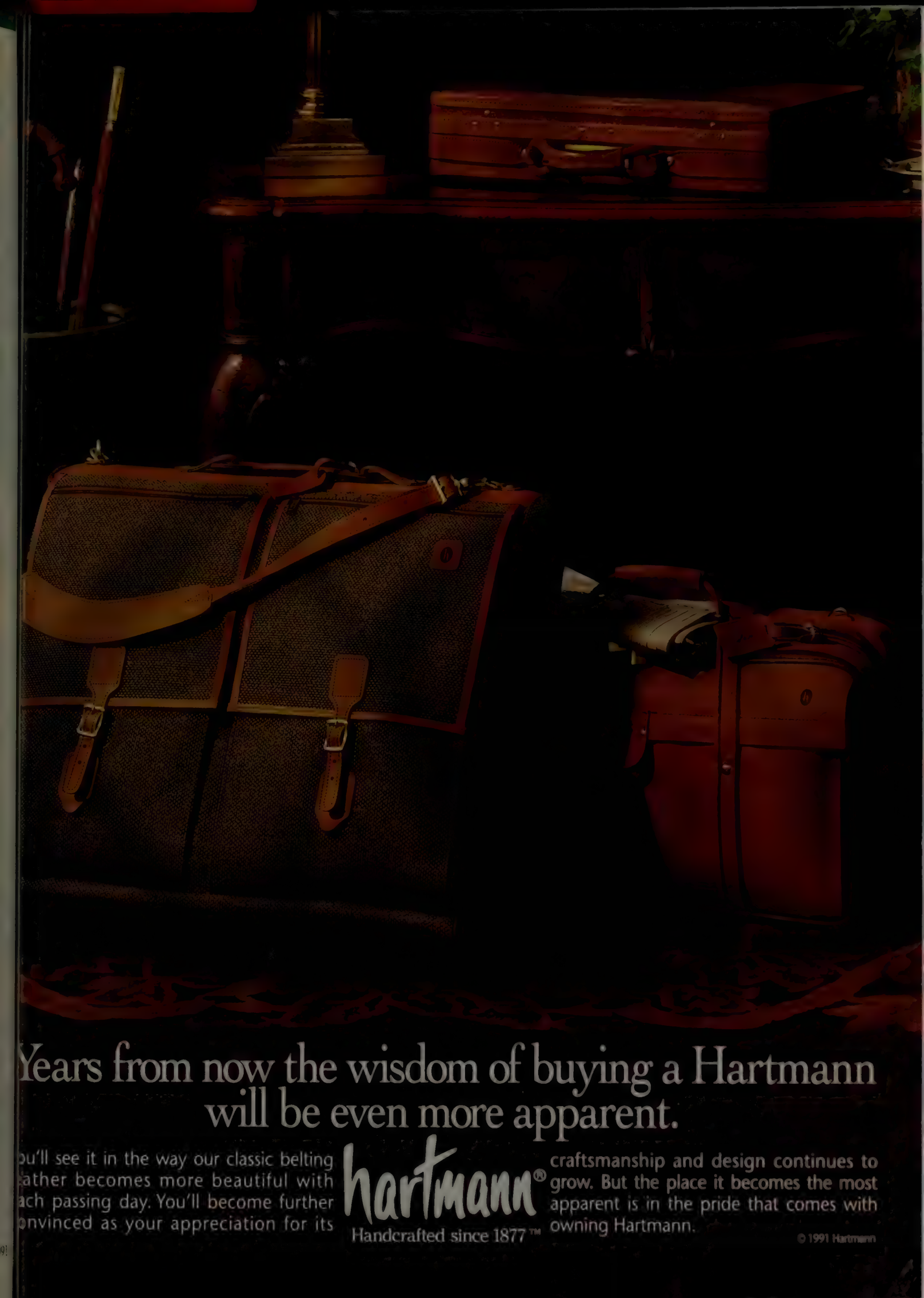
In our country we have those three unspeakably precious things: freedom of speech, freedom of conscience, and the prudence never to practice either.
–Mark Twain

Nowhere are prejudices more mistaken for truth, passion for reason and invective for documentation than in politics.
–John Mason Brown

If you stay in Beverly Hills too long you become a Mercedes.
–Robert Redford

All women become like their mothers. That is their tragedy. No man does. That's his.
–Oscar Wilde

We've only one virginity
to lose,
And where we lost it
there our hearts will be.
–Rudyard Kipling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